RIVERVIEW BANCORP INC
Form 10-Q
November 14, 2012
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from _____ to _____

Commission File Number: 0-22957

RIVERVIEW BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $.01 par value per share, 22,471,890 shares outstanding as of November 12, 2012.

Form 10-Q

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
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Forward Looking Statements

As used in this Form 10-Q, the terms “we,” “our” and “Company” refer to Riverview Bancorp, Inc. and its consolidated subsidiaries, unless the context indicates otherwise. When we refer to “Bank” in this Form 10-Q, we are referring to Riverview Community Bank, a wholly-owned subsidiary of Riverview Bancorp, Inc.

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

The Company cautions readers not to place undue reliance on any forward-looking statements. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company. The Company does not undertake to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These risks could cause our actual results for fiscal 2013 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of, us, and could negatively affect the Company's financial condition and results of operations as well as its stock price performance.

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

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2012 AND MARCH 31, 2012

(In thousands, except share and per share data) (Unaudited)	September 30, 2012	March 31, 2012
ASSETS		
Cash (including interest-earning accounts of $83,642 and $33,437)	$98,367	$46,393
Certificates of deposit held for investment	41,797	41,473
Loans held for sale	1,289	480
Investment securities held to maturity, at amortized cost (fair value of $0 and $542)	-	493
Investment securities available for sale, at fair value (amortized cost of $8,116 and $8,123)	6,278	6,314
Mortgage-backed securities held to maturity, at amortized cost (fair value of $170 and $177)	164	171
Mortgage-backed securities available for sale, at fair value (amortized cost of $653 and $940)	679	974
Loans receivable (net of allowance for loan losses of $20,140 and $19,921)	562,058	664,888
Real estate and other personal property owned	24,481	18,731
Prepaid expenses and other assets	3,894	6,362
Accrued interest receivable	1,958	2,158
Federal Home Loan Bank stock, at cost	7,285	7,350
Premises and equipment, net	17,745	17,068
Deferred income taxes, net	616	603
Mortgage servicing rights, net	420	278
Goodwill	25,572	25,572
Core deposit intangible, net	100	137
Bank owned life insurance	16,850	16,553
TOTAL ASSETS	$809,553	$855,998
LIABILITIES AND EQUITY		
LIABILITIES:		
Deposit accounts	$699,227	$744,455
Accrued expenses and other liabilities	7,926	9,398
Advanced payments by borrowers for taxes and insurance	1,060	800
Junior subordinated debentures	22,681	22,681
Capital lease obligations	2,477	2,513
Total liabilities	733,371	779,847
COMMITMENTS AND CONTINGENCIES (See Note 14)		
EQUITY:		
Shareholders' equity		
Serial preferred stock, $.01 par value; 250,000 authorized, issued and outstanding: none	-	-
Common stock, $.01 par value; 50,000,000 authorized		

September 30, 2012 – 22,471,890 issued and outstanding March 31, 2012 – 22,471,890 issued and outstanding	225	225
Additional paid-in capital	65,576	65,610
Retained earnings	11,543	11,536
Unearned shares issued to employee stock ownership trust	(541)	(593)
Accumulated other comprehensive loss	(1,196)	(1,171)
Total shareholders’ equity	75,607	75,607
Noncontrolling interest	575	544
Total equity	76,182	76,151
TOTAL LIABILITIES AND EQUITY	$809,553	$855,998

See notes to consolidated financial statements.

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RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND SIX MONTHS ENDED
SEPTEMBER 30, 2012 AND 2011
(In thousands, except share and per share data) (Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
INTEREST INCOME:				
Interest and fees on loans receivable	$ 8,468	$ 9,815	$ 17,513	$ 20,095
Interest on investment securities – taxable	38	36	91	81
Interest on investment securities – nontaxable	7	12	15	24
Interest on mortgage-backed securities	7	13	15	29
Other interest and dividends	128	89	257	164
Total interest and dividend income	8,648	9,965	17,891	20,393
INTEREST EXPENSE:				
Interest on deposits	699	1,158	1,522	2,388
Interest on borrowings	162	372	511	740
Total interest expense	861	1,530	2,033	3,128
Net interest income	7,787	8,435	15,858	17,265
Less provision for loan losses	500	2,200	4,500	3,750
Net interest income after provision for loan losses	7,287	6,235	11,358	13,515
NON-INTEREST INCOME:				
Fees and service charges	1,331	1,078	2,388	2,120
Asset management fees	504	570	1,108	1,195
Net gain on sale of loans held for sale	152	21	879	44
Bank owned life insurance	148	153	297	304
Other	179	10	82	73
Total non-interest income	2,314	1,832	4,754	3,736
NON-INTEREST EXPENSE:				
Salaries and employee benefits	3,609	3,514	7,402	8,025
Occupancy and depreciation	1,236	1,166	2,470	2,329
Data processing	292	542	606	830
Amortization of core deposit intangible	18	20	37	42
Advertising and marketing expense	269	283	488	528
FDIC insurance premium	394	286	681	559
State and local taxes	137	81	285	260
Telecommunications	116	108	237	215
Professional fees	281	298	702	637
Real estate owned expenses	891	756	1,830	1,186
Other	569	791	1,350	1,391

Total non-interest expense	7,812	7,845	16,088	16,002
INCOME BEFORE INCOME TAXES	1,789	222	24	1,249
PROVISION FOR INCOME TAXES	2	41	17	354
NET INCOME	$ 1,787	$ 181	$ 7	$ 895
Earnings per common share:				
Basic	$ 0.08	$ 0.01	$ 0.00	$ 0.04
Diluted	0.08	0.01	0.00	0.04
Weighted average number of shares outstanding:				
Basic	22,339,487	22,314,854	22,336,425	22,311,792
Diluted	22,339,487	22,314,854	22,336,425	22,311,792

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

	Three Months Ended September 30,		Six Months Ended September 30,	
(Dollars in thousands) (Unaudited)	2012	2011	2012	2011
Net income	$1,787	$ 181	$7	$ 895
Other comprehensive income (loss):				
Unrealized holding gain (loss) on securities, net of tax effect of $4, ($67), $13 and ($138)	(9)	132	(25)	271
Noncontrolling interest	13	26	31	42
Total comprehensive income	$1,791	$ 339	$13	$ 1,208

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(In thousands, except share data) (Unaudited)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to Employee Stock Ownership Trust	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance April 1, 2011	22,471,890	$ 225	$ 65,639	$ 43,193	$ (696)	$ (1,417)	$ 465	$ 107,409
Net income	-	-	-	895	-	-	-	895
Stock based compensation expense	-	-	5	-	-	-	-	5
Earned ESOP shares	-	-	(18)	-	52	-	-	34
Unrealized holding gain on securities available for sale, net of tax $138	-	-	-	-	-	271	-	271
Noncontrolling interest	-	-	-	-	-	-	42	42
Balance September 30, 2011	22,471,890	$ 225	$ 65,626	$ 44,088	$ (644)	$ (1,146)	$ 507	$ 108,656
Balance April 1, 2012	22,471,890	$ 225	$ 65,610	$ 11,536	$ (593)	$ (1,171)	$ 544	$ 76,151
Net income	-	-	-	7	-	-	-	7
Stock based compensation expense	-	-	1	-	-	-	-	1
Earned ESOP shares	-	-	(35)	-	52	-	-	17
Unrealized holding loss on securities available for sale, net of tax of $13	-	-	-	-	-	(25)	-	(25)

Noncontrolling interest	-	-	-	-	-	-	31	31
Balance September 30, 2012	22,471,890	$ 225	$ 65,576	$ 11,543	$ (541)	$ (1,196)	$ 575	$ 76,182

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(In thousands) (Unaudited)

	Six Months Ended September 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$7	$895
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	918	966
Provision for loan losses	4,500	3,750
Noncash expense related to ESOP	17	34
Decrease in deferred loan origination fees, net of amortization	(181)	(48)
Origination of loans held for sale	(9,527)	(1,529)
Proceeds from sales of loans held for sale	9,073	1,455
Stock based compensation expense	1	5
Writedown of real estate owned, net	1,512	785
Net (gain) loss on loans held for sale, sale of real estate owned, mortgage-backed securities, investment securities and premises and equipment	(778)	18
Income from bank owned life insurance	(297)	(304)
Changes in assets and liabilities:		
Prepaid expenses and other assets	2,268	(234)
Accrued interest receivable	200	121
Accrued expenses and other liabilities	(1,346)	180
Net cash provided by operating activities	6,367	6,094
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan (originations) repayments, net	56,870	(13,118)
Proceeds from sale of loans	31,394	-
Principal repayments on investment securities available for sale	7	21
Principal repayments on investment securities held to maturity	493	7
Principal repayments on mortgage-backed securities available for sale	287	436
Principal repayments on mortgage-backed securities held to maturity	7	9
Purchase of certificates of deposit held for investment	(324)	(8,947)
Proceeds from redemption of Federal Home Loan Bank stock	65	-
Purchase of premises and equipment and capitalized software	(1,418)	(1,297)
Capitalized improvements related to real estate owned	(72)	(207)
Proceeds from sale of real estate owned and premises and equipment	3,302	2,575
Net cash provided by (used in) investing activities	90,611	(20,521)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposit accounts	(45,228)	12,729
Proceeds from borrowings	3,000	3,000
Repayment of borrowings	(3,000)	(3,000)
Principal payments under capital lease obligation	(36)	(23)
Net increase in advance payments by borrowers	260	117
Net cash provided by (used in) financing activities	(45,004)	12,823

NET INCREASE (DECREASE) IN CASH	51,974	(1,604)
CASH, BEGINNING OF PERIOD	46,393	51,752
CASH, END OF PERIOD	$98,367	$50,148
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$1,543	$2,397
Income taxes	-	830
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of loans to real estate owned	$12,711	$1,202
Transfer of real estate owned to loans	2,104	214
Fair value adjustment to securities available for sale	(38)	409
Income tax effect related to fair value adjustment	13	(138)

See notes to consolidated financial statements.

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

1. BASIS OF PRESENTATION

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

The unaudited consolidated financial statements should be read in conjunction with the audited financial statements included in the Riverview Bancorp, Inc. Annual Report on Form 10-K for the year ended March 31, 2012 ("2012 Form 10-K"). The results of operations for the six months ended September 30, 2012 are not necessarily indicative of the results, which may be expected for the fiscal year ending March 31, 2013. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. PRINCIPLES OF CONSOLIDATION

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

3. STOCK PLANS AND STOCK-BASED COMPENSATION

In July 1998, shareholders of the Company approved the adoption of the 1998 Stock Option Plan ("1998 Plan"). The 1998 Plan was effective October 1, 1998 and expired on October 1, 2008. Accordingly, no further option awards may be granted under the 1998 Plan; however, any awards granted prior to its expiration remain outstanding subject to their terms.

In July 2003, shareholders of the Company approved the adoption of the 2003 Stock Option Plan ("2003 Plan"). The 2003 Plan was effective July 2003 and will expire on the tenth anniversary of the effective date, unless terminated sooner by the Company's Board of Directors ("Board"). Under the 2003 Plan, the Company may grant both incentive and non-qualified stock options to purchase up to 458,554 shares of its common stock to officers, directors and employees. Each option granted under the 2003 Plan has an exercise price equal to the fair market value of the Company's common stock on the date of grant, a maximum term of ten years and a vesting period from zero to five years. At September 30, 2012, there were options for 102,154 shares of the Company's common stock available for future grant under the 2003 Plan.

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

Six Months Ended
September 30, 2012

	Number of Shares	Weighted Average Exercise Price
Balance, beginning of period	440,500	$ 8.87
Grants	-	-
Options exercised	-	-
Forfeited	-	-
Expired	(20,000)	6.76
Balance, end of period	420,500	$ 8.97

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

	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
Stock options fully vested and expected to vest:		
Number	419,950	450,275
Weighted average exercise price	$ 8.97	$ 8.97
Aggregate intrinsic value (1)	$ -	$ -
Weighted average contractual term of options (years)	4.75	5.48
Stock options fully vested and currently exercisable:		
Number	414,900	433,000
Weighted average exercise price	$ 9.06	$ 9.21
Aggregate intrinsic value (1)	$ -	$ -
Weighted average contractual term of options (years)	4.71	5.34

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

Stock-based compensation expense related to stock options for the six months ended September 30, 2012 and 2011 was $1,000 and $5,000, respectively. As of September 30, 2012, there was $4,000 of unrecognized compensation expense related to unvested stock options, which will be recognized over the remaining vesting periods of the underlying stock options through December 2014.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes based stock option valuation model. There were no stock options granted during the six months ended September 30, 2012.

4. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Diluted EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares and common stock equivalents for items that are dilutive, net of shares assumed to be repurchased using the treasury stock method at the average share price for the Company's common stock during the period. Common stock equivalents arise from assumed conversion of outstanding stock options. Shares owned by the Company's Employee Stock Ownership Plan ("ESOP") that have not been allocated are not considered to be outstanding for the purpose of computing earnings per share. For the three and six months ended September 30, 2012, stock options for 421,000 and 424,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive. For the three and six months ended September 30, 2011, stock options for 455,000 and 462,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive.

	Three Months Ended September 30, 2012	2011	Six Months Ended September 30, 2012	2011
Basic EPS computation:				
Numerator-net income	$1,787,000	$181,000	$7,000	$895,000
Denominator-weighted average common shares outstanding	22,339,487	22,314,854	22,336,425	22,311,792
Basic EPS	$0.08	$0.01	$0.00	$0.04
Diluted EPS computation:				
Numerator-net income	$1,787,000	$181,000	$7,000	$895,000
Denominator-weighted average common shares outstanding	22,339,487	22,314,854	22,336,425	22,311,792
Effect of dilutive stock options	-	-	-	-
Weighted average common shares and common stock equivalents	22,339,487	22,314,854	22,336,425	22,311,792
Diluted EPS	$0.08	$0.01	$0.00	$0.04

5. INVESTMENT SECURITIES

The Company did not have any investment securities held to maturity at September 30, 2012. At March 31, 2012, investment securities held to maturity consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2012				
Municipal bonds	$ 493	$ 49	$ -	$ 542

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2012				
Trust preferred	$ 2,974	$ -	$ (1,855)	$ 1,119
Agency securities	5,000	17	-	5,017
Municipal bonds	142	-	-	142
Total	$ 8,116	$ 17	$ (1,855)	$ 6,278
March 31, 2012				
Trust preferred	$ 2,974	$ -	$ (1,808)	$ 1,166
Agency securities	5,000	-	(1)	4,999
Municipal bonds	149	-	-	149
Total	$ 8,123	$ -	$ (1,809)	$ 6,314

The contractual maturities of investment securities available for sale at September 30, 2012 are as follows (in thousands):

September 30, 2012	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	5,000	5,017
Due after five years through ten years	-	-
Due after ten years	3,116	1,261
Total	$ 8,116	$ 6,278

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

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2012						
Trust preferred	$-	$-	$1,119	$(1,855)	$1,119	$(1,855)

March 31, 2012

Trust preferred	$-	$-	$1,166	$(1,808)	$1,166	$(1,808)
Agency securities	4,999	(1)	-	-	4,999	(1)
Total	$4,999	$(1)	$1,166	$(1,808)	$6,165	$(1,809)

At September 30, 2012, the Company had a single collateralized debt obligation which is secured by trust preferred securities issued by 19 other holding companies. The Company holds the mezzanine tranche of this security. Four of the issuers in this pool have defaulted (representing 38% of the remaining collateral), and six other issuers are currently in deferral (27% of the remaining collateral). Subsequent to September 30, 2012, two issuers cured their deferral reducing the number of issuers in deferral to four (10% of remaining collateral). The Company has estimated an expected default rate of 44% for this security. The expected default rate was estimated based primarily on an analysis of the financial condition of the underlying issuers. The Company estimates that a default rate of 49% would trigger additional other than temporary impairment ("OTTI") of this security. The Company utilized a discount rate of 22% to estimate the fair value of this security. There was no excess subordination on this security.

During the three and six months ended September 30, 2012, the Company determined that there was no additional OTTI charge on the above collateralized debt obligation. The Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell the security before the anticipated recovery of the remaining amortized cost basis.

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

The Company realized no gains or losses on sales of investment securities for the three and six months ended September 30, 2012 and 2011. There were no investment securities pledged as collateral by the Company at September 30, 2012 or March 31, 2012.

6. MORTGAGE-BACKED SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2012				
FHLMC mortgage-backed securities (1)	$ 66	$ 4	$ -	$ 70
FNMA mortgage-backed securities (2)	98	2	-	100
Total	$ 164	$ 6	$ -	$ 170
March 31, 2012				
FHLMC mortgage-backed securities	$ 69	$ 4	$ -	$ 73
FNMA mortgage-backed securities	102	2	-	104
Total	$ 171	$ 6	$ -	$ 177

(1) Federal Home Loan Mortgage Corporation (FHLMC)
(2) Federal National Mortgage Association (FNMA)

The contractual maturities of mortgage-backed securities classified as held to maturity at September 30, 2012 are as follows (in thousands):

September 30, 2012	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	3	3
Due after five years through ten years	43	46
Due after ten years	118	121
Total	$ 164	$ 170

Mortgage-backed securities held to maturity with an amortized cost of $65,000 and $69,000 and a fair value of $68,000 and $71,000 at September 30, 2012 and March 31, 2012, respectively, were pledged as collateral for governmental public funds held by the Company.

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

September 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Real estate mortgage investment conduits	$ 275	$ 8	$ -	$ 283
FHLMC mortgage-backed securities	373	17	-	390
FNMA mortgage-backed securities	5	1	-	6
Total	$ 653	$ 26	$ -	$ 679
March 31, 2012				
Real estate mortgage investment conduits	$ 319	$ 10	$ -	$ 329
FHLMC mortgage-backed securities	613	23	-	636
FNMA mortgage-backed securities	8	1	-	9
Total	$ 940	$ 34	$ -	$ 974

The contractual maturities of mortgage-backed securities available for sale at September 30, 2012 are as follows (in thousands):

September 30, 2012	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	452	474
Due after five years through ten years	-	-
Due after ten years	201	205
Total	$ 653	$ 679

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

Mortgage-backed securities available for sale with an amortized cost of $544,000 and $744,000 and a fair value of $569,000 and $776,000 at September 30, 2012 and March 31, 2012, respectively, were pledged as collateral for government public funds held by the Bank. The real estate mortgage investment conduits consist of FHLMC and FNMA securities.

7. LOANS RECEIVABLE

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

	September 30, 2012	March 31, 2012
Commercial and construction		
Commercial business	$74,953	$87,238
Other real estate mortgage (1)	385,715	434,763
Real estate construction	16,920	25,791
Total commercial and construction	477,588	547,792
Consumer		
Real estate one-to-four family	102,473	134,975
Other installment	2,137	2,042
Total consumer	104,610	137,017
Total loans	582,198	684,809
Less: Allowance for loan losses	20,140	19,921
Loans receivable, net	$562,058	$664,888

(1) Other real estate mortgage consists of commercial real estate, land and multi-family loans

The Company’s loan portfolio has very little exposure to sub-prime mortgage loans since the Company has not historically engaged in this type of lending. At September 30, 2012, loans carried at $410.3 million were pledged as collateral to the Federal Home Loan Bank of Seattle (“FHLB”) and Federal Reserve Bank of San Francisco (“FRB”) for borrowing agreements.

Most of the Bank's business activity is with customers located in the states of Washington and Oregon. Loans and extensions of credit outstanding at one time to one borrower or a group of related borrowers are generally limited by federal regulation to 15% of the Bank's shareholders' equity, excluding accumulated other comprehensive loss. As of September 30, 2012 and March 31, 2012, the Bank had no loans to any one borrower in excess of the regulatory limit.

8. ALLOWANCE FOR LOAN LOSSES

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

Commercial business, commercial real estate, multi-family, construction and land acquisition and development loans are considered to have a higher degree of credit risk than one-to-four family residential loans, and tend to be more vulnerable to adverse conditions in the real estate market and deteriorating economic conditions. While the Company believes the estimates and assumptions used in its determination of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, 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 our financial condition and results of operations. In addition, bank regulators periodically review the Company’s allowance and may require the Company to increase its provision for loan losses or recognize additional loan charge-offs. An increase in the Company’s allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on the Company’s financial condition and results of operations.

Management’s evaluation of the allowance for loan losses is based on ongoing, quarterly assessments of the known and inherent risks in the loan portfolio. Loss factors are based on the Company’s historical loss experience with additional consideration and adjustments made for changes in economic conditions, changes in the amount and composition of the loan portfolio, delinquency rates, changes in collateral values, seasoning of the loan portfolio, duration of current business cycle, a detailed analysis of impaired loans and other factors as deemed appropriate. These factors are evaluated on a quarterly basis. Loss rates used by the Company are affected as changes in these factors increase or decrease from quarter to quarter. The Company also considers bank regulatory examination results and findings of internal credit examiners in its quarterly evaluation of the allowance for loan losses. Management’s recent analysis of the allowance has placed greater emphasis on the Company’s construction and land development loan portfolios and the effect of various factors such as geographic and loan type concentrations. The Company has focused on managing these portfolios in an attempt to minimize the effects of declining home values and slower home sales in its market areas.

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

Three months ended September 30, 2012	Commercial Business	Commercial Real Estate	Land	Multi-Family	Real Estate Construction	Consumer	Unallocated	Total
Beginning balance	$ 2,576	$ 7,622	$3,958	$945	$ 480	$ 3,353	$ 2,038	$20,972
Provision for loan losses	20	(99)	(103)	4	64	617	(3)	500
Charge-offs	(367)	(147)	(180)	-	(41)	(679)	-	(1,414)
Recoveries	54	-	-	1	3	24	-	82
Ending balance	$ 2,283	$ 7,376	$3,675	$950	$ 506	$ 3,315	$ 2,035	$20,140
Six months ended September 30, 2012								
Beginning balance	$2,688	$5,599	$4,906	$1,121	$412	$3,274	$1,921	$19,921

Provision for loan losses	500	2,859	(208)	212	206	817	114	4,500
Charge-offs	(991)	(1,082)	(1,054)	(384)	(116)	(834)	-	(4,461)
Recoveries	86	-	31	1	4	58	-	180
Ending balance	$2,283	$7,376	$3,675	$950	$506	$3,315	$2,035	$20,140
Three months ended September 30, 2011								
Beginning balance	$1,841	$4,572	$3,807	$2,163	$799	$1,547	$1,330	$16,059
Provision for loan losses	190	(33)	558	480	261	417	327	2,200
Charge-offs	(357)	(107)	(1,879)	(858)	-	(395)	-	(3,596)
Recoveries	1	-	-	-	-	8	-	9
Ending balance	$1,675	$4,432	$2,486	$1,785	$1,060	$1,577	$1,657	$14,672
Six months ended September 30, 2011								
Beginning balance	$1,822	$4,744	$2,003	$2,172	$820	$1,339	$2,068	$14,968
Provision for loan losses	654	(205)	2,362	471	240			