

RIVERVIEW BANCORP INC
Form 10-Q
February 13, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2014

OR

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

For the transition period from _____ to _____

Commission File Number: 0-22957

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

Washington
(State or other jurisdiction of incorporation or
organization)

91-1838969
(I.R.S. Employer I.D. Number)

900 Washington St., Ste. 900, Vancouver,
Washington
(Address of principal executive offices)

98660
(Zip Code)

Registrant's telephone number, including area
code:

(360) 693-6650

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [] 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 [] 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 February 12, 2015.

Form 10-Q

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
INDEX

Part I.

Item 1:	Financial Statements (Unaudited)	
	Consolidated Balance Sheets as of December 31, 2014 and March 31, 2014	2
	Consolidated Statements of Income for the Three and Nine Months Ended December 31, 2014 and 2013	3
	Consolidated Statements of Comprehensive Income Three and Nine Months Ended December 31, 2014 and 2013	4
	Consolidated Statements of Equity for the Nine Months Ended December 31, 2014 and 2013	5
	Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2014 and 2013	6
	Notes to Consolidated Financial Statements	7-24
Item 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations	25-39
Item 3:	Quantitative and Qualitative Disclosures About Market Risk	39
Item 4:	Controls and Procedures	39
Part II. Other Information		40-41
Item 1:	Legal Proceedings	
Item 1A:	Risk Factors	
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	
	Defaults Upon Senior Securities	

Item
3:

Item
4: Mine Safety Disclosures

Item
5: Other Information

Item
6: Exhibits

SIGNATURES

42

Certifications

Exhibit 31.1

Exhibit 31.2

Exhibit 32

Forward Looking Statements

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

“Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995: When used in this Form 10-Q, the words “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “plans,” “targets,” “potentially,” “probably,” “outlook,” or similar expressions or future or conditional verbs such as “may,” “will,” “should,” “would,” and “could,” or similar 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; legislative or regulatory changes that adversely affect the Company’s business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III; the Company’s ability to attract and retain deposits; increases in premiums for deposit insurance; the Company’s ability to control operating costs and expenses; the use of estimates in determining fair value of certain of the Company’s assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risks associated with the loans on the Company’s balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect the Company’s workforce and potential associated charges; computer systems on which the Company depends could fail or experience a security breach; the Company’s ability to retain key members of its senior management team; costs and effects of litigation, including settlements and judgments; the Company’s ability to implement its business strategies; the Company’s ability to successfully integrate any assets, liabilities, customers, systems, and management personnel it may acquire into its operations and the Company’s ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; the Company’s ability to pay dividends on its common stock and interest or principal payments on its junior subordinated debentures; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; other economic, competitive, governmental, regulatory, and technological factors affecting the Company’s operations, pricing, products and services and the other risks described from time to time in our filings with the Securities and Exchange Commission.

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

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2014 AND MARCH 31, 2014

	December 31, 2014	March 31, 2014
(In thousands, except share and per share data) (Unaudited)		
ASSETS		
Cash (including interest-earning accounts of \$5,872 and \$51,715)	\$21,981	\$68,577
Certificates of deposit held for investment	27,214	36,925
Loans held for sale	724	1,024
Investment securities available for sale, at fair value (amortized cost of \$17,427 and \$23,866)	17,150	23,394
Mortgage-backed securities held to maturity, at amortized cost (fair value of \$90 and \$104)	88	101
Mortgage-backed securities available for sale, at fair value (amortized cost of \$100,613 and \$79,083)	101,216	78,575
Loans receivable (net of allowance for loan losses of \$11,701 and \$12,551)	567,398	520,937
Real estate and other personal property owned	1,604	7,703
Prepaid expenses and other assets	3,041	3,197
Accrued interest receivable	2,024	1,836
Federal Home Loan Bank stock, at cost	6,120	6,744
Premises and equipment, net	15,683	16,417
Deferred income taxes, net	13,500	15,433
Mortgage servicing rights, net	393	369
Goodwill	25,572	25,572
Core deposit intangible, net	8	26
Bank owned life insurance	24,719	17,691
TOTAL ASSETS	\$828,435	\$824,521
LIABILITIES AND EQUITY		
LIABILITIES:		
Deposit accounts	\$689,330	\$690,066
Accrued expenses and other liabilities	9,397	10,497
Advanced payments by borrowers for taxes and insurance	199	467
Federal Home Loan Bank advances	2,100	-
Junior subordinated debentures	22,681	22,681
Capital lease obligations	2,298	2,361
Total liabilities	726,005	726,072
COMMITMENTS AND CONTINGENCIES (See Note 16)		
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		
December 31, 2014 – 22,471,890 issued and outstanding	225	225

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

March 31, 2014 – 22,471,890 issued and outstanding

Additional paid-in capital	65,217	65,195
Retained earnings	36,565	33,592
Unearned shares issued to employee stock ownership trust	(310)	(387)
Accumulated other comprehensive income (loss)	215	(647)
Total shareholders' equity	101,912	97,978
Noncontrolling interest	518	471
Total equity	102,430	98,449
TOTAL LIABILITIES AND EQUITY	\$828,435	\$824,521

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED
DECEMBER 31, 2014 AND 2013

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
INTEREST INCOME:				
Interest and fees on loans receivable	\$6,498	\$6,319	\$19,155	\$19,389
Interest on investment securities – taxable	75	75	257	191
Interest on mortgage-backed securities	520	88	1,508	156
Other interest and dividends	110	191	359	532
Total interest and dividend income	7,203	6,673	21,279	20,268
INTEREST EXPENSE:				
Interest on deposits	322	496	1,024	1,537
Interest on borrowings	163	149	458	449
Total interest expense	485	645	1,482	1,986
Net interest income	6,718	6,028	19,797	18,282
Recapture of loan losses	(400)	-	(1,050)	(2,500)
Net interest income after recapture of loan losses	7,118	6,028	20,847	20,782
NON-INTEREST INCOME:				
Fees and service charges	1,032	1,177	3,260	3,301
Asset management fees	718	605	2,248	1,936
Net gain on sale of loans held for sale	154	176	435	609
Bank owned life insurance	196	136	528	419
Other	164	290	226	252
Total non-interest income	2,264	2,384	6,697	6,517
NON-INTEREST EXPENSE:				
Salaries and employee benefits	4,472	3,959	12,987	11,696
Occupancy and depreciation	1,223	1,187	3,632	3,621
Data processing	495	523	1,399	1,641
Amortization of core deposit intangible	6	7	18	33
Advertising and marketing expense	169	170	522	578
FDIC insurance premium	143	400	498	1,228
State and local taxes	162	106	416	340
Telecommunications	73	78	223	227
Professional fees	302	342	848	995
Real estate owned expenses	99	298	901	2,402
Other	502	541	1,611	1,740
Total non-interest expense	7,646	7,611	23,055	24,501
INCOME BEFORE INCOME TAXES	1,736	801	4,489	2,798
PROVISION FOR INCOME TAXES	587	-	1,516	16
NET INCOME	\$1,149	\$801	\$2,973	\$2,782

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

Earnings per common share:				
Basic	\$0.05	\$0.04	\$0.13	\$0.12
Diluted	0.05	0.04	0.13	0.12
Weighted average number of shares outstanding:				
Basic	22,394,910	22,370,277	22,388,775	22,364,142
Diluted	22,439,195	22,371,914	22,421,330	22,365,224

3

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2014 AND 2013

(Dollars in thousands) (Unaudited)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Net income	\$ 1,149	\$ 801	\$ 2,973	\$ 2,782
Other comprehensive income (loss)				
Net unrealized holding gain (loss) from available for sale securities arising during the period, net of tax of (\$274), \$77, (\$497) and (\$174), respectively	531	(149)	966	338
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of \$54, \$0, \$54 and \$0, respectively	(104)	-	(104)	-
Other comprehensive income (loss)	427	(149)	862	338
Noncontrolling interest	13	16	47	62
Total comprehensive income	\$ 1,589	\$ 668	\$ 3,882	\$ 3,182

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE NINE MONTHS ENDED DECEMBER 31, 2014 AND 2013

(In thousands, except share data) (Unaudited)	Common Stock		Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to Employee Stock Ownership Trust	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
	Shares	Amount						
Balance April 1, 2013	22,471,890	\$ 225	\$ 65,551	\$ 14,169	\$ (490)	\$ (1,013)	603	\$ 79,045
Net income	-	-	-	2,782	-	-	-	2,782
Purchase of subsidiary shares from noncontrolling interest	-	-	(399)	-	-	-	(213)	(612)
Stock based compensation expense	-	-	53	-	-	-	-	53
Earned ESOP shares	-	-	(29)	-	77	-	-	48
Unrealized holding gain on securities available for sale	-	-	-	-	-	338	-	338
Noncontrolling interest	-	-	-	-	-	-	62	62
Balance December 31, 2013	22,471,890	\$ 225	\$ 65,176	\$ 16,951	\$ (413)	\$ (675)	452	\$ 81,716
Balance April 1, 2014	22,471,890	\$ 225	\$ 65,195	\$ 33,592	\$ (387)	\$ (647)	471	\$ 98,449
Net income	-	-	-	2,973	-	-	-	2,973
Stock based compensation expense	-	-	26	-	-	-	-	26
Earned ESOP shares	-	-	(4)	-	77	-	-	73

Unrealized holding gain on securities available for sale	-	-	-	-	-	862	-	862
Noncontrolling interest	-	-	-	-	-	-	47	47
Balance December 31, 2014	22,471,890 \$	225 \$	65,217 \$	36,565 \$	(310 \$	215 \$	518 \$	102,430

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED DECEMBER 31, 2014 AND
2013Nine Months Ended
December 31,

(In thousands) (Unaudited)

2014 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 2,973	\$ 2,782
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	2,394	1,330
Recapture of loan losses	(1,050)	(2,500)
Provision for deferred income taxes	1,490	-
Noncash expense related to ESOP	73	48
Increase (decrease) in deferred loan origination fees, net of amortization	73	(21)
Origination of loans held for sale	(13,130)	(21,474)
Proceeds from sales of loans held for sale	13,734	22,615
Stock based compensation expense	26	53
Writedown of real estate owned, net	715	1,607
Net gain on loans held for sale, sale of real estate owned, mortgage-backed securities, investment securities and premises and equipment	(501)	(470)
Income from bank owned life insurance	(528)	(419)
Changes in assets and liabilities:		
Prepaid expenses and other assets	74	322
Accrued interest receivable	(187)	77
Accrued expenses and other liabilities	(944)	779
Net cash provided by operating activities	5,212	4,729

CASH FLOWS FROM INVESTING ACTIVITIES:

Loan repayments (originations), net	(23,335)	19,363
Purchase of loans receivable	(22,545)	(7,646)
Proceeds from call, maturity, or sale of investment securities available for sale	8,480	3,000
Principal repayments on investment securities available for sale	-	847
Principal repayments on mortgage-backed securities available for sale	13,660	1,121
Principal repayments on mortgage-backed securities held to maturity	13	20
Purchase of investment securities available for sale	(2,000)	(16,448)
Purchase of mortgage-backed securities available for sale	(50,199)	(35,775)
Proceeds from sale of mortgage-backed securities available for sale	14,225	-
Redemption of certificates of deposit held for investment	9,711	7,461
Proceeds from redemption of Federal Home Loan Bank stock	624	196
Purchase of Bank owned life insurance	(6,500)	-
Purchase of premises and equipment and capitalized software	(367)	(738)
Proceeds from sale of real estate owned and premises and equipment	5,392	7,633
Net cash used in investing activities	(52,841)	(20,966)

CASH FLOWS FROM FINANCING ACTIVITIES

Net increase (decrease) in deposit accounts	(736)	25,465
Purchase of subsidiary shares from noncontrolling interest	-	(612)
Proceeds from borrowings	25,450	2,000
Repayment of borrowings	(23,350)	(2,000)
Principal payments under capital lease obligation	(63)	(59)
Net decrease in advance payments by borrowers	(268)	(832)
Net cash provided by financing activities	1,033	23,962

NET INCREASE (DECREASE) IN CASH	(46,596)	7,725
CASH, BEGINNING OF PERIOD	68,577	115,415
CASH, END OF PERIOD	\$ 21,981	\$ 123,140

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$ 5,048	\$ 1,535
Income taxes	15	29

NONCASH INVESTING AND FINANCING ACTIVITIES:

Transfer of loans to real estate owned	\$ 804	\$ 5,782
Transfer of real estate owned to loans	726	196
Fair value adjustment to securities available for sale	1,305	512
Income tax effect related to fair value adjustment	(443)	(174)

See notes to consolidated financial statements.

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

1. BASIS OF PRESENTATION

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

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

2. PRINCIPLES OF CONSOLIDATION

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

3. STOCK PLANS AND STOCK-BASED COMPENSATION

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

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

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

Nine Months Ended December 31, 2014 Weighted	Nine Months Ended December 31, 2013 Weighted
--	--

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Balance, beginning of period	474,654	\$ 7.91	407,500	\$ 9.05
Grants	-	-	87,154	2.78
Expired	(32,000)	9.55	(20,000)	8.98
Balance, end of period	442,654	\$ 7.79	474,654	\$ 7.91

7

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

	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013
Stock options fully vested and expected to vest:		
Number	442,504	469,896
Weighted average exercise price	\$ 7.79	\$ 7.96
Aggregate intrinsic value (1)	\$253,000	\$ 18,000
Weighted average contractual term of options (years)	3.95	4.81
Stock options fully vested and currently exercisable:		
Number	442,054	385,300
Weighted average exercise price	\$ 7.79	\$ 9.10
Aggregate intrinsic value (1)	\$253,000	\$ 7,000
Weighted average contractual term of options (years)	3.95	3.79

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

Stock-based compensation expense related to stock options for the nine months ended December 31, 2014 and 2013 was \$26,000 and \$53,000, respectively. As of December 31, 2014, all outstanding stock options were fully vested and there was no remaining unrecognized compensation expense.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes based stock option valuation model. The fair value of all awards is amortized on a straight-line basis over the requisite service periods, which are generally the vesting periods. The expected life of options granted represents the period of time that they are expected to be outstanding. The expected life is determined based on historical experience with similar options, giving consideration to the contractual terms and vesting schedules. Expected volatility was estimated at the date of grant based on the historical volatility of the Company's common stock. Expected dividends are based on dividend trends and the market value of the Company's common stock at the time of grant. The risk-free interest rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of the grant. During the nine months ended December 31, 2014, there were no stock options granted. During the nine months ended December 31, 2013, the Company granted 87,154 stock options. The weighted average fair value of stock options granted during the nine months ended December 31, 2013 was \$1.18.

The Black-Scholes model uses the assumptions listed in the following table:

	Risk Free Interest Rate	Expected Life (years)	Expected Volatility	Expected Dividends
Fiscal 2014	1.95%	6.25	51.87%	2.04%

4. EARNINGS PER SHARE

Basic earnings per share (“EPS”) is computed by dividing net income or loss applicable to common stock by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Diluted EPS is computed by dividing net income or loss applicable to common stock by the weighted average number of common shares and common stock equivalents for items that are dilutive, net of shares assumed to be repurchased using the treasury stock method at the average share price for the Company’s common stock during the period. Common stock equivalents arise from assumed exercise of outstanding stock options. Shares owned by the Company’s Employee Stock Ownership Plan (“ESOP”) that have not been allocated are not considered to be outstanding for the purpose of computing earnings per share. For the three and nine months ended December 31, 2014, stock options for 233,000 and 235,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive. For the three and nine months ended December 31, 2013, stock options for 460,000 and 432,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Basic EPS computation:				
Numerator-net income	\$ 1,149,000	\$ 801,000	\$ 2,973,000	\$ 2,782,000
Denominator-weighted average common shares outstanding	22,394,910	22,370,277	22,388,775	22,364,142
Basic EPS	\$ 0.05	\$ 0.04	\$ 0.13	\$ 0.12
Diluted EPS computation:				
Numerator-net income	\$ 1,149,000	\$ 801,000	\$ 2,973,000	\$ 2,782,000
Denominator-weighted average common shares outstanding	22,394,910	22,370,277	22,388,775	22,364,142
Effect of dilutive stock options	44,285	1,637	32,555	1,082
Weighted average common shares and common stock equivalents	22,439,195	22,371,914	22,421,330	22,365,224
Diluted EPS	\$ 0.05	\$ 0.04	\$ 0.13	\$ 0.12

5. INVESTMENT SECURITIES

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
December 31, 2014				
Trust preferred	\$ 1,919	\$ -	\$ (59)	\$ 1,860
Agency securities	15,508	23	(241)	15,290
Total	\$ 17,427	\$ 23	\$ (300)	\$ 17,150
March 31, 2014				
Trust preferred	\$ 1,919	\$ -	\$ (16)	\$ 1,903
Agency securities	21,947	6	(462)	21,491
Total	\$ 23,866	\$ 6	\$ (478)	\$ 23,394

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

	Amortized Cost	Estimated Fair Value
December 31, 2014		
Due in one year or less	\$ -	\$ -
Due after one year through five years	14,500	14,262
Due after five years through ten years	1,008	1,028
Due after ten years	1,919	1,860
Total	\$ 17,427	\$ 17,150

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	Unrealized	Fair	Unrealized	Fair	Unrealized

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

	Value	Losses	Value	Losses	Value	Losses
December 31, 2014						
Trust preferred	\$ 1,860	\$ (59)	\$ -	\$ -	\$ 1,860	\$ (59)
Agency securities	-	-	12,759	(241)	12,759	(241)
Total	\$ 1,860	\$ (59)	\$ 12,759	\$ (241)	\$ 14,619	\$ (300)

March 31, 2014

Trust preferred	\$ 1,903	\$ (16)	\$ -	\$ -	\$ 1,903	\$ (16)
Agency securities	17,985	(462)	-	-	17,985	(462)
Total	\$ 19,888	\$ (478)	\$ -	\$ -	\$ 19,888	\$ (478)

At December 31, 2014, the Company had a single collateralized debt obligation which is secured by a pool of trust preferred securities issued by 15 other holding companies. The Company holds the mezzanine tranche of this security. All tranches senior to the mezzanine tranche have been repaid by the issuer. Four of the issuers of trust preferred securities in this pool have defaulted (representing 51% of the remaining collateral, including excess collateral), and one other issuer is currently deferring interest payments (2% of the remaining collateral). The Company has estimated an expected default rate

of 43% for its portion of this security. The expected default rate was estimated based primarily on an analysis of the financial condition of the underlying issuers. The Company estimates that a default rate of 69% would trigger additional other than temporary impairment (“OTTI”) of this security. The Company utilized a discount rate of 10% to estimate the fair value of this security. There was no excess subordination on this security.

During the three and nine months ended December 31, 2014, the Company determined that there was no additional OTTI charge on the above collateralized debt obligation. The Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell the security before the anticipated recovery of the remaining amortized cost basis.

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

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

Proceeds from sale of investment securities totaled \$2.5 million for the three and nine months ended December 31, 2014. Gross realized gains on sales of investment securities totaled \$31,000 for both the three and nine months ended December 31, 2014. The Company had no sales and no realized gains or losses on investment securities for the three and nine months ended December 31, 2013. Investment securities with an amortized cost of \$3.0 million and \$1.0 million and a fair value of \$2.9 million and \$975,000 at December 31, 2014 and March 31, 2014, respectively, were pledged as collateral for government public funds held by the Bank.

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
December 31, 2014				
Mortgage-backed securities (1)	\$ 88	\$ 2	\$ -	\$ 90
March 31, 2014				
Mortgage-backed securities (1)	\$ 101	\$ 3	\$ -	\$ 104

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

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

December 31, 2014	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ -	\$ -
Due after one year through five years	-	-
Due after five years through ten years	75	77
Due after ten years	13	13
Total	\$ 88	\$ 90

Mortgage-backed securities held to maturity with an amortized cost of \$28,000 and \$36,000 and a fair value of \$28,000 and \$37,000 at December 31, 2014 and March 31, 2014, respectively, were pledged as collateral for governmental public funds held by the Company.

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

Mortgage-backed 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
December 31, 2014				
Real estate mortgage investment conduits (1)	\$ 23,802	\$ 56	\$ (54)	\$ 23,804
Mortgage-backed securities (2)	71,240	614	(107)	71,747
Other mortgage-backed securities (3)	5,571	110	(16)	5,665
Total	\$ 100,613	\$ 780	\$ (177)	\$ 101,216
March 31, 2014				
Real estate mortgage investment conduits	\$ 7,218	\$ 9	\$ (77)	\$ 7,150
Mortgage-backed securities	65,858	102	(547)	65,413
Other mortgage-backed securities	6,007	18	(13)	6,012
Total	\$ 79,083	\$ 129	\$ (637)	\$ 78,575

(1) Comprised of FHLMC and FNMA issued securities.

(2) Comprised of FHLMC, FNMA and Ginnie Mae ("GNMA") issued securities.

(3) Comprised of U.S. Small Business Administration ("SBA") issued securities and commercial real estate ("CRE") secured securities issued by private issuers.

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

	Amortized Cost	Estimated Fair Value
December 31, 2014		
Due in one year or less	\$ -	\$ -
Due after one year through five years	2,478	2,493
Due after five years through ten years	5,585	5,616
Due after ten years	92,550	93,107
Total	\$ 100,613	\$ 101,216

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
December 31, 2014						
Real estate mortgage investment conduits	\$ 14,822	\$ (54)	\$ -	\$ -	\$ 14,822	\$ (54)
Mortgage-backed securities (1)	4,348	(7)	5,202	(100)	9,550	(107)
	-	-	1,451	(16)	1,451	(16)

Other mortgage-backed securities (2)												
Total	\$	19,170	\$	(61)	\$	6,653	\$	(116)	\$	25,823	\$	(177)

March 31, 2014

Real estate mortgage investment conduits	\$	4,996	\$	(77)	\$	-	\$	-	\$	4,996	\$	(77)
Mortgage-backed securities		49,177		(547)		-		-		49,177		(547)
Other mortgage-backed securities		1,526		(13)		-		-		1,526		(13)
Total	\$	55,699	\$	(637)	\$	-	\$	-	\$	55,699	\$	(637)

(1) Comprised of FHLMC and FNMA issued securities.

(2) Comprised of SBA issued securities.

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

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

Proceeds from sale of mortgage-backed securities totaled \$14.3 million for the three and nine months ended December 31, 2014. Gross realized gains on sales of mortgage-backed securities totaled \$127,000 for both the three and nine months ended December 31, 2014. The Company had no sales and no realized gains or losses on mortgage-backed securities for the three and nine months ended December 31, 2013. Mortgage-backed securities available for sale with an amortized cost of \$1.5 million and \$1.7 million and a fair value of \$1.5 million and \$1.7 million at December 31, 2014 and March 31, 2014, respectively, were pledged as collateral for government public funds held by the Bank.

7. LOANS RECEIVABLE

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

	December 31, 2014		March 31, 2014
Commercial and construction			
Commercial business	\$ 82,284	\$	71,632
Other real estate mortgage (1)	337,030		324,881
Real estate construction	29,199		19,482
Total commercial and construction	448,513		415,995
Consumer			
Real estate one-to-four family	90,865		93,007
Other installment	39,721		24,486
Total consumer	130,586		117,493
Total loans	579,099		533,488
Less: Allowance for loan losses	11,701		12,551
Loans receivable, net	\$ 567,398	\$	520,937

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

The Company considers its loan portfolio to have very little exposure to sub-prime mortgage loans since the Company has not historically engaged in this type of lending. At December 31, 2014, loans carried at \$340.8 million were pledged as collateral to the Federal Home Loan Bank of Seattle (“FHLB”) and Federal Reserve Bank of San Francisco (“FRB”) pursuant to/under borrowing agreements.

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

8. ALLOWANCE FOR LOAN LOSSES

Allowance for loan loss: The allowance for loan losses is maintained at a level sufficient to provide for probable loan losses based on evaluating known and inherent risks in the loan portfolio. The allowance is provided based upon the Company’s ongoing quarterly assessment of the pertinent factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, delinquency levels, actual loan loss experience, current economic conditions and detailed analysis of individual loans for which full collectability may not be assured. The detailed analysis includes techniques to estimate the fair value of loan collateral and the existence of potential alternative sources of repayment. The allowance consists of specific, general and unallocated components. The specific component relates to loans that are considered impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans based on the Company’s risk rating

system and historical loss experience adjusted for qualitative factors. The Company calculates its historical loss rates using the average of the last four quarterly 24-month periods. The Company calculates and applies its historical loss rates by individual loan types in its portfolio. These historical loss rates are adjusted for qualitative and environmental factors. An unallocated component is maintained to cover uncertainties that the Company believes have resulted in incurred losses that have not yet been allocated to specific elements of the general and specific components of the allowance for loan losses. Such factors include uncertainties in economic conditions and in identifying triggering events that directly correlate to subsequent loss rates, changes in appraised value of underlying collateral, risk factors that have not yet manifested themselves in loss allocation factors and historical loss experience data that may not precisely correspond to the current portfolio or economic conditions. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The appropriate allowance level is estimated based upon factors and trends identified by the Company as of the date of the filing of the financial statements.

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

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

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

Three months
ended

December 31, 2014	Commercial Business	Commercial Real Estate	Land	Multi- Family	Real Estate Construction	Consumer	Unallocated	Total
Beginning balance	\$ 1,579	\$ 5,187	\$ 265	\$ 360	\$ 319	\$ 2,822	\$ 1,469	\$ 12,001
Provision for (recapture of) loan losses	117	(868)	192	(1)	461	60	(361)	(400)
Charge-offs	(16)	-	-	-	-	(27)	-	(43)
Recoveries	24	-	102	-	-	17	-	143
Ending balance	\$ 1,704	\$ 4,319	\$ 559	\$ 359	\$ 780	\$ 2,872	\$ 1,108	\$ 11,701

Nine months
ended
December 31,
2014

Beginning balance	\$ 2,409	\$ 5,269	\$ 340	\$ 203	\$ 387	\$ 2,653	\$ 1,290	\$ 12,551
Provision for (recapture of) loan losses	(644)	(922)	(1)	156	393	150	(182)	(1,050)
Charge-offs	(89)	(28)	-	-	-	(85)	-	(202)
Recoveries	28	-	220	-	-	154	-	402
Ending balance	\$ 1,704	\$ 4,319	\$ 559	\$ 359	\$ 780	\$ 2,872	\$ 1,108	\$ 11,701

Three months
ended
December 31,
2013

Beginning balance	\$ 1,913	\$ 6,787	\$ 815	\$ 269	\$ 235	\$ 1,845	\$ 1,832	\$ 13,696
Provision for (recapture of) loan losses	(170)	(652)	(782)	(101)	5	215	1,485	-
Charge-offs	(36)	(102)	-	-	-	(137)	-	(275)
Recoveries	306	8	289	-	-	24	-	627
Ending balance	\$ 2,013	\$ 6,041	\$ 322	\$ 168	\$ 240	\$ 1,947	\$ 3,317	\$ 14,048

Nine months
ended
December 31,
2013

Beginning balance	\$ 2,128	\$ 5,979	\$ 2,019	\$ 541	\$ 221	\$ 2,949	\$ 1,806	\$ 15,643
Provision for (recapture of) loan	(503)	313	(2,461)	(373)	22	(1,009)	1,511	(2,500)

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

losses

Charge-offs	(135)	(274)	(45)	-	(7)	(293)	-	(754)
Recoveries	523	23	809	-	4	300	-	1,659
Ending balance	\$ 2,013	\$ 6,041	\$ 322	\$ 168	\$ 240	\$ 1,947	\$ 3,317	\$ 14,048

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

December 31, 2014	Allowance for loan losses			Recorded investment in loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial business	\$ -	\$ 1,704	\$ 1,704	\$ 1,188	\$ 81,096	\$ 82,284
Commercial real estate	9	4,310	4,319	17,048	273,367	290,415
Land	-	559	559	800	14,262	15,062
Multi-family	-	359	359	2,290	29,263	31,553
Real estate construction	-	780	780	-	29,199	29,199
Consumer	127	2,745	2,872	2,635	127,951	130,586
Unallocated	-	1,108	1,108	-	-	-
Total	\$ 136	\$ 11,565	\$ 11,701	\$ 23,961	\$ 555,138	\$ 579,099

March 31, 2014

Commercial business	\$ -	\$ 2,409	\$ 2,409	\$ 947	\$ 70,685	\$ 71,632
Commercial real estate	137	5,132	5,269	18,122	269,386	287,508
Land	-	340	340	858	15,387	16,245
Multi-family	-	203	203	2,014	19,114	21,128
Real estate construction	-	387	387	-	19,482	19,482
Consumer	142	2,511	2,653	4,009	113,484	117,493
Unallocated	-	1,290	1,290	-	-	-
Total	\$ 279	\$ 12,272	\$ 12,551	\$ 25,950	\$ 507,538	\$ 533,488

Non-accrual loans: Loans are reviewed regularly and it is the Company's general policy that a loan is past due when it is 30 days to 89 days delinquent. In general, when a loan is 90 days delinquent or when collection of principal or interest appears doubtful, it is placed on non-accrual status, at which time the accrual of interest ceases and a reserve for unrecoverable accrued interest is established and charged against operations. As a general practice, payments received on non-accrual loans are applied to reduce the outstanding principal balance on a cost recovery method. As a general practice, a loan is not removed from non-accrual status until all delinquent principal, interest and late fees have been brought current and the borrower has demonstrated a history of performance based upon the contractual terms of the note. Interest income foregone on non-accrual loans was \$83,000 and \$165,000 during the three months ended December 31, 2014 and 2013, respectively. Interest income foregone on non-accrual loans was \$351,000 and \$777,000 during the nine months ended December 31, 2014 and 2013, respectively.

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

December 31, 2014	30-89 Days Past Due	90 Days and Greater (Non- Accrual)	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
Commercial business	\$ 183	\$ 96	\$ 279	\$ 82,005	\$ 82,284	-
Commercial real estate	1,562	3,003	4,565	285,850	290,415	-
Land	-	800	800	14,262	15,062	-
Multi-family	-	2,290	2,290	29,263	31,553	-
Real estate construction	-	-	-	29,199	29,199	-
Consumer	825	1,540	2,365	128,221	130,586	-
Total	\$ 2,570	\$ 7,729	\$ 10,299	\$ 568,800	\$ 579,099	-

March 31, 2014

Commercial business	\$ 120	\$ 452	\$ 572	\$ 71,060	\$ 71,632	-
Commercial real estate	188	8,067	8,255	279,253	287,508	-
Land	-	800	800	15,445	16,245	-
Multi-family	359	2,014	2,373	18,755	21,128	-
Real estate construction	-	-	-	19,482	19,482	-
Consumer	1,580	2,729	4,309	113,184	117,493	-
Total	\$ 2,247	\$ 14,062	\$ 16,309	\$ 517,179	\$ 533,488	-

Credit quality indicators: The Company monitors credit risk in its loan portfolio using a risk rating system for all commercial (non-consumer) loans. The risk rating system is a measure of the credit risk of the borrower based on their historical, current and anticipated financial characteristics. The Company assigns a risk rating to each commercial loan at origination and subsequently updates these ratings, as necessary, so the risk rating continues to reflect the appropriate risk characteristics of the loan. Application of appropriate risk ratings is key to management of the loan portfolio risk. In arriving at the rating, the Company considers the following factors: delinquency, payment history,

quality of management, liquidity, leverage, earning trends, alternative funding sources, geographic risk, industry risk, cash flow adequacy, account practices, asset protection and extraordinary risks. Consumer loans, including custom construction loans, are not assigned a risk rating but rather are grouped into homogeneous pools with similar risk characteristics. When a consumer loan is delinquent 90 days, it is placed on non-accrual status and assigned a substandard risk rating. Loss factors are assigned to each risk rating and homogeneous pool based on historical loss experience for similar loans. This historical loss experience is adjusted for qualitative factors that are likely to cause the estimated credit losses to differ from the Company's historical loss experience. The Company uses these loss factors to estimate the general component of its allowance for loan loss.

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

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

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

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

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

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

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

	December 31, 2014		March 31, 2014	
	Weighted-Average Risk Grade	Classified Loans(2)	Weighted-Average Risk Grade	Classified Loans(2)
Commercial business	3.40	\$ 673	3.54	\$ 8,419
Commercial real estate	3.69	12,193	3.87	19,838
Land	4.21	800	3.88	800
Multi-family	3.55	2,303	3.81	2,028
Real estate construction	3.50	1,843	3.08	-
Consumer (1)	7.00	1,540	7.00	2,729
Total	3.64	\$ 19,352	3.82	\$ 33,814
Total loans risk rated	\$ 449,298		\$ 418,503	

(1) Consumer loans are primarily evaluated on a homogenous pool level and generally not individually risk rated unless certain factors are met.

(2) Classified loans consist of substandard, doubtful and loss loans.

Impaired loans: A loan is considered impaired when it is probable that the Company will be unable to collect all amounts (principal and interest) due according to the contractual terms of the original loan agreement. Typically, factors used in determining if a loan is impaired include, but are not limited to, whether the loan is 90 days or more delinquent, internally designated as substandard or worse, on non-accrual status or represents a troubled debt

restructuring (“TDR”). The majority of the Company’s impaired loans are considered collateral dependent. When a loan is considered collateral dependent, impairment is measured using the estimated value of the underlying collateral, less any prior liens, and when applicable, less estimated selling costs. For impaired loans that are not collateral dependent, impairment is measured using the present value of expected future cash flows, discounted at the loan’s original effective interest rate. When the net realizable value of the impaired loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), an impairment is recognized by adjusting an allocation of the allowance for loan losses. Subsequent to the initial allocation of allowance to the individual loan, the Company may conclude that it is appropriate to record a charge-off of the impaired portion of the loan. When a charge-off is recorded the loan balance is reduced and the specific allowance is eliminated. Generally, when a collateral dependent loan is initially measured for impairment and does not have an appraisal performed in the last six months, the Company obtains an updated market valuation. Subsequently, the Company generally obtains an updated market valuation on an annual basis. The valuation may occur more frequently if the Company determines that there is an indication that the market value may have declined.

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

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

December 31, 2014	Recorded Investment with No Specific Valuation Allowance	Recorded Investment with Specific Valuation Allowance	Total Recorded Investment	Unpaid Principal Balance	Related Specific Valuation Allowance
Commercial business	\$ 1,188	\$ -	\$ 1,188	\$ 1,342	\$ -
Commercial real estate	15,486	1,562	17,048	17,907	9
Land	800	-	800	804	-
Multi-family	2,290	-	2,290	2,462	-
Consumer	1,286	1,349	2,635	3,238	127
Total	\$ 21,050	\$ 2,911	\$ 23,961	\$ 25,753	\$ 136

March 31, 2014

Commercial business	\$ 947	\$ -	\$ 947	\$ 1,067	\$ -
Commercial real estate	17,956	166	18,122	20,601	137
Land	858	-	858	861	-
Multi-family	2,014	-	2,014	2,103	-
Consumer	2,596	1,413	4,009	4,639	142
Total	\$ 24,371	\$ 1,579	\$ 25,950	\$ 29,271	\$ 279

Three Months ended
December 31, 2014

Three Months ended
December 31, 2013

	Average Recorded Investment	Interest Recognized on Impaired Loans	Average Recorded Investment	Interest Recognized on Impaired Loans
Commercial business	\$ 1,203	\$ 14	\$ 1,610	\$ 14
Commercial real estate	17,086	121	17,452	111
Land	800	-	1,640	1
Multi-family	2,299	-	2,298	-
Consumer	2,662	18	3,103	7
Total	\$ 24,050	\$ 153	\$ 26,103	\$ 133

Nine Months ended
December 31, 2014

Nine Months ended
December 31, 2013

	Average Recorded	Interest	Average Recorded	Interest
--	---------------------	----------	---------------------	----------

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

	Investment	Recognized on Impaired Loans	Investment	Recognized on Impaired Loans
Commercial business	\$ 1,070	\$ 36	\$ 1,201	\$ 37
Commercial real estate	17,436	346	19,783	362
Land	821	-	2,103	5
Multi-family	2,239	-	2,944	15
Real estate construction	-	-	86	-
Consumer	3,329	56	3,597	30
Total	\$ 24,895	\$ 438	\$ 29,714	\$ 449

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

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

The following table presents new TDRs for the periods indicated:

(Dollars in Thousands)	Nine Months Ended December 31, 2014			Nine Months Ended December 31, 2013		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Commercial business	-	\$ -	\$ -	2	\$ 310	\$ 270
Commercial real estate	1	344	333	1	4,525	4,330
Multi-family	-	-	-	1	2,562	2,065
Consumer	-	-	-	1	43	41
Total	1	\$ 344	\$ 333	5	\$ 7,440	\$ 6,706

There were no TDRs recorded in the twelve months prior to December 31, 2014 and 2013 that defaulted in the nine months ended December 31, 2014 and 2013.

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

9. GOODWILL

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

The Company performed an impairment assessment as of October 31, 2014 and determined that no impairment of the goodwill asset exists. The goodwill impairment test involves a two-step process. The first step is a comparison of the reporting unit's fair value to its carrying value. If the reporting unit's fair value is less than its carrying value, the Company would be required to progress to the second step. In the second step, the Company calculates the implied fair value of goodwill. The GAAP standards with respect to goodwill require that the Company compare the implied fair value of goodwill to the carrying amount of goodwill on the Company's balance sheet. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the Company is allocated to all of the Company's individual assets and liabilities, including any unrecognized identifiable intangible assets, as if the Company had been

acquired in a business combination and the estimated fair value of the Company is the price paid to acquire it. The allocation process is performed only for purposes of determining the amount of goodwill impairment, as no assets or liabilities are written up or down, nor are any additional unrecognized identifiable intangible assets recorded as a part of this process. The results of the Company's step one test indicated that the reporting unit's fair value was greater than its carrying value and therefore a step two analysis was not required; however, no assurance can be given that the Company's goodwill will not be written down in future periods.

10. FEDERAL HOME LOAN BANK ADVANCES

FHLB borrowings are summarized as follows (dollars in thousands):

	December 31, 2014	March 31, 2014
Federal Home Loan Bank advances	\$ 2,100	\$ -
Weighted average interest rate:	0.34%	-%

11. JUNIOR SUBORDINATED DEBENTURES

At December 31, 2014, the Company had two wholly-owned subsidiary grantor trusts that were established for the purpose of issuing trust preferred securities and common securities. The trust preferred securities accrue and pay distributions periodically at specified annual rates as provided in each trust agreement. The trusts used the net proceeds from each of the offerings to purchase a like amount of junior subordinated debentures (the “Debentures”) of the Company. The Debentures are the sole assets of the trusts. The Company’s obligations under the Debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the obligations of the trusts. The trust preferred securities are mandatorily redeemable upon maturity of the Debentures, or upon earlier redemption as provided in the indentures. The Company has the right to redeem the Debentures in whole or in part on or after specific dates, at a redemption price specified in the indentures governing the Debentures plus any accrued but unpaid interest to the redemption date. The Company also has the right to defer the payment of interest on each of the Debentures for a period not to exceed 20 consecutive quarters, provided that the deferral period does not extend beyond the stated maturity. During such deferred period, distributions on the corresponding trust preferred securities is also deferred. Beginning in the first quarter of fiscal 2011, the Company elected to defer regularly scheduled interest payments on its outstanding \$22.7 million aggregate principal amount of the Debentures. During the quarter-ended December 31, 2014, the Company paid the entire \$4.0 million of interest deferred on the Debentures and the trust preferred securities holders received payment of their deferred distribution.

The Debentures issued by the Company to the grantor trusts, totaling \$22.7 million, are reflected in the Consolidated Balance Sheets in the liabilities section, under the caption “junior subordinated debentures.” The common securities issued by the grantor trusts were purchased by the Company, and the Company’s investment in the common securities of \$681,000 at December 31, 2014 and March 31, 2014, is included in prepaid expenses and other assets in the Consolidated Balance Sheets. The Company records interest expense on the Debentures in the Consolidated Statements of Income.

The following table is a summary of the terms of the Debentures at December 31, 2014 (in thousands):

Issuance Trust	Issuance Date	Amount Outstanding	Rate Type	Initial Rate	Current Rate	Maturing Date
Riverview Bancorp Statutory Trust I	12/2005	\$ 7,217	Variable (1)	5.88%	1.60%	3/2036
Riverview Bancorp Statutory Trust II	06/2007	15,464	Variable (2)	7.03%	1.59%	9/2037
		\$ 22,681				

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

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

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive income (loss) by component for the periods indicated (in thousands):

	Unrealized Gains and Losses on Available for Sale Securities (1)	
	Three Months Ended	Nine Months Ended

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

	December 31,		December 31,	
	2014	2013	2014	2013
Beginning Balance	\$(212)	\$(526)	\$(647)	\$(1,013)
Other comprehensive income (loss)	531	(149)	966	338
Amounts reclassified from accumulated other comprehensive income (loss) (2)	(104)	-	(104)	-
Net current-period other comprehensive income (loss)	427	(149)	862	338
Ending Balance	\$215	\$(675)	\$215	\$(675)

(1) All Amounts are net of tax. Amounts in parenthesis indicate debits.

(2) See following table for details about reclassifications.

The following table presents details regarding the reclassifications from accumulated other comprehensive income for the periods indicated (in thousands):

	Unrealized gain and losses on available for sale securities				Affected Line Item in the Consolidated Statement of Income
	Three Months Ended December 31,		Nine Months Ended December 31,		
	2014	2013	2014	2013	
Investment securities and mortgage-backed securities gains	\$ 158	\$ -	\$ 158	\$ -	Other non-interest income
Income tax expense	(54)	-	(54)	-	Provision for income taxes
Securities gains, net of tax	\$ 104	\$ -	\$ 104	\$ -	

13. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

December 31, 2014	Fair value	Fair value measurements using	
		Other	Significant

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

		Quoted prices in active markets for identical assets (Level 1)		observable inputs (Level 2)		unobservable inputs (Level 3)
Investment securities available for sale:						
Trust preferred	\$	1,860	\$	-	\$	1,860
Agency securities		15,290		-		-
Mortgage-backed securities available for sale:						
Real estate mortgage investment conduits		23,804		-		-
Mortgage-backed securities		71,747		-		-
Other mortgage-backed securities		5,665		-		-
Total recurring assets measured at fair value	\$	118,366	\$	-	\$	116,506
					\$	1,860

March 31, 2014

Investment securities available for sale:						
Trust preferred	\$	1,903	\$	-	\$	1,903
Agency securities		21,491		-		-
Mortgage-backed securities available for sale:						
Real estate mortgage investment conduits		7,150		-		-
Mortgage-backed securities		65,413		-		-
Other mortgage-backed securities		6,012		-		-
Total recurring assets measured at fair value	\$	101,969	\$	-	\$	100,066
					\$	1,903

The following tables present a reconciliation of assets that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods indicated (in thousands). There were no transfers of assets in to or out of Level 1, 2 or 3 for the nine months ended December 31, 2014 and 2013.

	For the Nine Months Ended December 31, 2014 Available for sale securities	For the Nine Months Ended December 31, 2013 Available for sale securities
Beginning balance	\$ 1,903	\$ 1,238
Transfers in to Level 3	-	-
Included in earnings (1)	-	-
Included in other comprehensive income	(43)	683
Ending balance	\$ 1,860	\$ 1,921

(1) Included in other
non-interest income

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

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

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

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

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

The following table represents certain loans and real estate owned (“REO”) which were marked down to their fair value using fair value measures during the nine months ended December 31, 2014. The following are assets that are measured at fair value on a nonrecurring basis (in thousands).

December 31, 2014	Fair value	Fair value measurements using		
		Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Impaired loans	\$ 3,426	\$ -	\$ -	\$ 3,426
Real estate owned	1,193	-	-	1,193
Total nonrecurring assets measured at fair value	\$ 4,619	\$ -	\$ -	\$ 4,619

The following table presents quantitative information about Level 3 inputs for financial instruments measured at fair value on a nonrecurring basis at December 31, 2014:

	Valuation technique	Significant unobservable inputs	Range (1)
Impaired loans	Appraised value	Adjustment for market conditions	0%
Real estate owned	Appraised value	Adjustment for market conditions	0%

(1) There were no adjustments to appraised values at December 31, 2014.

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

Impaired loans – A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. For information regarding the Company’s method for estimating the fair value of impaired loans, see Note 8 – Allowance for Loan Losses.

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

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

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

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

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

14. NEW ACCOUNTING PRONOUNCEMENTS

In January 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-04, “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure”. The ASU clarifies when a creditor would be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that all or a portion of the loan would be derecognized and the real estate property recognized. Under the guidance, a consumer loan collateralized by residential real estate should be reclassified to other real estate owned when (1) the creditor obtains legal title to the residential property or (2) the borrower conveys all interest in the property to the creditor to satisfy the loan by completing a deed in lieu of foreclosure or similar agreement. In addition, an entity is required to disclose the amount of residential real estate meeting the conditions above, and the recorded investment in consumer mortgage loans secured by residential real estate that are in the process of foreclosure. ASU 2014-04 is effective for annual and interim reporting periods within those annual periods, beginning after December 15, 2014. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, “Presentation of Financial Statements and Property, Plant, and Equipment.” The ASU clarifies and improves disclosures when a disposal of a component of an entity or group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity’s operations and financial results. ASU 2014-08 is effective for annual and interim reporting periods within those annual periods, beginning after December 15, 2014. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” This implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for annual and interim reporting periods within those annual periods, beginning after December 15, 2016. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements – Going Concern.” This ASU provides guidance in connection with preparing financial statements for each annual and interim reporting period, that an entity’s management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). ASU 2014-15 is effective for annual periods after December 15, 2016 and for annual periods and interim periods thereafter. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

December 31, 2014	Carry value	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value
Assets:					
Cash	\$ 21,981	\$ 21,981	\$ -	\$ -	\$ 21,981
Certificates of deposit held for investment	27,214	-	27,408	-	27,408
Investment securities available for sale	17,150	-	15,290	1,860	17,150
Mortgage-backed securities held to maturity	88	-	90	-	90
Mortgage-backed securities available for sale	101,216	-	101,216	-	101,216
Loans receivable, net	567,398	-	-	524,376	524,376
Loans held for sale	724	-	724	-	724
Federal Home Loan Bank stock	6,120	-	6,120	-	6,120
Liabilities:					
Demand – savings deposits	548,301	548,301	-	-	548,301
Time deposits	141,029	-	140,681	-	140,681
Federal Home Loan Bank advances	2,100	-	2,100	-	2,100
Junior subordinated debentures	22,681	-	-	10,255	10,255
March 31, 2014					
Assets:					
Cash	\$ 68,577	\$ 68,577	\$ -	\$ -	\$ 68,577
Certificates of deposit held for investment	36,925	-	37,176	-	37,176
Investment securities available for sale	23,394	-	21,491	1,903	23,394
Mortgage-backed securities held to maturity	101	-	104	-	104
	78,575	-	78,575	-	78,575

Mortgage-backed securities
available for sale

Loans receivable, net	520,937	-	-	480,454	480,454
Loans held for sale	1,024	-	1,024	-	1,024
Federal Home Loan Bank stock	6,744	-	6,744	-	6,744

Liabilities:

Demand – savings deposits	\$ 527,813	527,813	-	-	527,813
Time deposits	162,253	-	162,020	-	162,020
Junior subordinated debentures	22,681	-	-	11,233	11,233

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

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

Cash – Fair value approximates the carrying amount.

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

Investments and Mortgage-Backed Securities – Fair values were based on quoted market rates and dealer quotes. The fair value of the trust preferred investment was determined using a discounted cash flow method (see also Note 13 – Fair Value Measurement).

Loans Receivable and Loans Held for Sale – Loans were priced using a discounted cash flow analysis. The fair value of loans held for sale was based on the loans carrying value as the agreements to sell these loans are short term fixed rate commitments and no material difference between the carrying value is likely.

Federal Home Loan Bank stock – The carrying amount approximates the estimated fair value of this investment.

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

Federal Home Loan Bank Advances – The fair value of FHLB advances was based on the carrying value as the advances are overnight (short-term) advances.

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

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

16. COMMITMENTS AND CONTINGENCIES

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

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

Significant off-balance sheet commitments at December 31, 2014 are listed below (in thousands):

	Contract or Notional Amount
Commitments to originate loans:	
Adjustable-rate	\$ 23,840
Fixed-rate	6,734

Standby letters of credit		791
Undisbursed loan funds, and unused lines of credit		75,354
Total	\$	106,719

At December 31, 2014, the Company had firm commitments to sell \$3.1 million of residential loans to the FHLMC. Typically, these agreements are short term fixed rate commitments and no material gain or loss is likely.

Other Contractual Obligations. In connection with certain asset sales, the Company typically makes representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, the Company may have an obligation to repurchase the assets or indemnify the purchaser against loss. At December 31, 2014, loans under warranty totaled \$117.2 million, which substantially represents the unpaid principal balance of the Company's loans serviced for FHLMC. The Company believes that the potential for loss under these arrangements is remote. Accordingly, no contingent liability has been recorded in the consolidated financial statements.

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

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

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

Critical Accounting Policies

Critical accounting policies and estimates are discussed in our 2014 Form 10-K under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation – Critical Accounting Policies." That discussion highlights estimates the Company makes that involve uncertainty or potential for substantial change. There have not been any material changes in the Company's critical accounting policies and estimates as compared to the disclosure contained in the Company's 2014 Form 10-K.

Executive Overview

As a progressive, community-oriented financial services company, the Company emphasizes local, personal service to residents of its primary market area. The Company considers Clark, Cowlitz, Klickitat and Skamania counties of Washington and Multnomah and Marion counties of Oregon as its primary market area. The counties of Multnomah, Clark and Skamania are part of the Portland metropolitan area as defined by the U.S. Census Bureau. The Company is engaged predominantly in the business of attracting deposits from the general public and using such funds in its primary market area to originate commercial business, commercial real estate, multi-family real estate, real estate construction, residential real estate and other consumer loans. The Company's strategy over the past several years has been to control balance sheet growth, including the targeted reduction of residential construction related loans, in order to improve its regulatory capital ratios. The Company's loan portfolio totaled \$567.4 million at December 31, 2014 compared to \$520.9 million at March 31, 2014.

Most recently, the Company's primary focus has been on increasing commercial business loans and owner occupied commercial real estate loans with a specific focus on medical professionals and the medical industry. Beginning in 2014, the Company began purchasing from time to time pools of automobile loans from another financial institution as a way to further diversify its loan portfolio and to earn a higher yield than earned on its cash or short-term investments. These indirect automobile loans were originated through a single dealership group located outside the Company's primary market area. The collateral for these loans is comprised of a mix of used automobiles. These loans are purchased with servicing retained by the seller. At December 31, 2014, the Company had \$37.5 million in purchased automobile loans; at that date, three of these loans totaling \$44,000 were on non-accrual status.

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

Vancouver is located in Clark County, Washington, which is just north of Portland, Oregon. Many businesses are located in the Vancouver area because of the favorable tax structure and lower energy costs in Washington as compared to Oregon. Companies located in the Vancouver area include Sharp Microelectronics, Hewlett Packard,

Georgia Pacific, Underwriters Laboratory, Wafer Tech, Nautilus, Barrett Business Services, PeaceHealth and Fisher Investments, as well as several support industries. In addition to this industry base, the Columbia River Gorge Scenic Area is a source of tourism, which has helped to transform the area from its past dependence on the timber industry.

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

At December 31, 2014, checking accounts totaled \$251.9 million, or 36.5% of our total deposit mix compared to \$223.0 million or 32.4% a year ago. Our strategic plan also stresses increased emphasis on non-interest income, including increased fees for asset management through RAMCorp and deposit service charges. The strategic plan is designed to enhance earnings, reduce interest rate risk and provide a more complete range of financial services to customers and the local communities the Company serves. We believe we are well positioned to attract new customers and to increase our

market share through our 17 branches, including ten in Clark County, two in the Portland metropolitan area and three lending centers, including our most recently opened full-service branch in Gresham, Oregon.

Economic conditions in the Company's market areas have continued to improve from the recent recessionary downturn; however, the pace of recovery has been modest and uneven and ongoing stress in the economy will likely continue to be challenging going forward. According to the Washington State Employment Security Department, unemployment in Clark County increased to 7.3% at November 30, 2014 compared to 6.9% at March 31, 2014. According to the Oregon Employment Department, unemployment in Portland remained constant at 6.2% at both November 30, 2014 and March 31, 2014. According to the Regional Multiple Listing Services ("RMLS"), inventory levels in Portland, Oregon have decreased to 2.3 months at December 31, 2014 compared to 3.1 months at March 31, 2014. Inventory levels in Clark County have decreased to 3.4 months at December 31, 2014 compared to 4.6 months at March 31, 2014. According to the RMLS, closed home sales in Clark County increased 13.0% and 9.7% during December 2014 compared to March 2014 and December 2013, respectively. Closed home sales in Portland increased 20.6% and 25.6% during December 2014 compared to March 2014 and December 2013, respectively. The Company has also seen an increase in sales activity for building lots during the past twelve months. Commercial real estate leasing activity in the Portland/Vancouver market area has performed better than the residential real estate market; however, it is generally affected by a slow economy later than other indicators. According to Norris Beggs Simpson, commercial vacancy rates in Clark County and Portland, Oregon were approximately 11.9% and 13.5%, respectively, as of December 31, 2014 compared to 10.8% and 15.2%, respectively, at December 31, 2013.

Operating Strategy

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

Focusing on Asset Quality. The Company is focused on monitoring existing performing loans, resolving nonperforming loans and selling foreclosed assets. The Company has aggressively sought to reduce its level of nonperforming assets through write-downs, collections, modifications and sales of nonperforming loans and real estate owned. The Company has taken proactive steps to resolve its nonperforming loans, including negotiating repayment plans, forbearances, loan modifications and loan extensions with borrowers when appropriate, and accepting short payoffs on delinquent loans, particularly when such payoffs result in a smaller loss than foreclosure. In connection with the downturn in real estate markets, the Company applied more conservative and stringent underwriting practices to new loans, including, among other things, increasing the amount of required collateral or equity requirements, reducing loan-to-value ratios and increasing debt service coverage ratios. Nonperforming assets decreased \$12.4 million to \$9.3 million at December 31, 2014 compared to \$21.8 million at March 31, 2014. However, there can be no assurance that the ongoing economic conditions affecting our borrowers will not result in future increases in nonperforming and classified loans.

Improving Earnings by Expanding Product Offerings. The Company intends to prudently increase the percentage of its assets consisting of higher-yielding commercial real estate and commercial loans, which offer higher risk-adjusted returns, shorter maturities and more sensitivity to interest rate fluctuations, while maintaining compliance with its heightened regulatory capital requirements. The Company also intends to selectively add additional products to further diversify revenue sources and to capture more of each customer's banking relationship by cross selling loan and deposit products and additional services to Bank customers, including services provided through RAMCorp to increase its fee income. Assets under management by RAMCorp totaled \$376.7 million and \$359.7 million at December 31, 2014 and March 31, 2014, respectively.

The Company continuously reviews new products and services to provide its customers more financial options. All new technology and services are generally reviewed for business development and cost saving purposes. The Bank has implemented remote check capture at all of its branches and for selected customers of the Bank. The Company continues to experience growth in customer use of its online banking services, which allows customers to conduct a full range of services on a real-time basis, including balance inquiries, transfers and electronic bill paying. The Company also upgraded its online banking product for consumer customers, providing consumer customers greater flexibility and convenience in conducting their online banking. The Company's online service has also enhanced the delivery of cash management services to business customers. The Company introduced its mobile banking application during the second fiscal quarter of 2013 to further allow flexibility and convenience to its customers related to their banking needs. During June 2013, the Company also implemented a new core banking platform that enabled the Company to better serve its customer base. The Company also participates in an internet deposit listing service which allows the Company to post time deposit rates on an internet site where institutional investors have the ability to deposit funds with the Company. The Company does not currently have any internet based deposits; however, the Company will continue to have accessibility to these funds in the future. Furthermore, the Company may utilize the internet deposit listing service to purchase certificates of deposit at other financial institutions. The Company also offers Insured Cash Sweep (ICS™), a reciprocal money market product, to its customers along with the Certificate of Deposit Account Registry Service (CDARS™) program which allows customers access to FDIC insurance on deposits exceeding the \$250,000 FDIC insurance limit.

Attracting Core Deposits and Other Deposit Products. The Company’s strategic focus is to emphasize total relationship banking with its customers to internally fund its loan growth. The Company has reduced its reliance on other wholesale funding sources, including FHLB and FRB advances, by focusing on the continued growth of core customer deposits. The Company believes that a continued focus on customer relationships will help to increase the level of core deposits and locally-based retail certificates of deposit. In addition to its retail branches, the Company maintains technology-based products, such as personal financial management, business cash management, and business remote deposit products, that enable it to compete effectively with banks of all sizes. Core branch deposits (comprised of all demand, savings, interest checking accounts and all time deposits but excludes wholesale-brokered deposits, trust account deposits, Interest on Lawyer Trust Accounts (“IOLTA”), public funds and Internet based deposits) increased \$6.6 million during the nine months ended December 31, 2014. The Company had \$2.1 million in outstanding advances from the FHLB at December 31, 2014. The Company had no outstanding advances from the FRB at December 31, 2014.

Continued Expense Control. Management has undertaken several initiatives to reduce non-interest expense and continues to make it a priority to identify cost savings opportunities throughout all aspects of the Company’s operations, including forming a cost saving committee whose mission is to find additional cost saving opportunities at the Company. The Company has instituted expense control measures such as cancelling certain projects and capital purchases, and reducing travel and entertainment expenditures. In October 2014, the Company closed one of its branches as a result of its failure to meet the Company’s required growth and profitability standards. This was an in-store branch located in Portland Oregon. The Company expects minimal impact to its customers and deposit totals due to this branch’s proximity to its Gresham, Oregon branch which opened in the summer of 2012.

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

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

Loan Composition

The following table sets forth the composition of the Company’s commercial and construction loan portfolios based on loan purpose at the dates indicated.

Commercial Business	Other Real Estate	Real Estate Construction	Commercial & Construction
------------------------	-------------------------	-----------------------------	---------------------------------

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

December 31, 2014	Mortgage (in thousands)			Total
Commercial business	\$ 82,284	\$ -	\$ -	\$ 82,284
Commercial construction	-	-	26,051	26,051
Office buildings	-	81,882	-	81,882
Warehouse/industrial	-	45,089	-	45,089
Retail/shopping centers/strip malls	-	60,472	-	60,472
Assisted living facilities	-	1,855	-	1,855
Single purpose facilities	-	101,117	-	101,117
Land	-	15,062	-	15,062
Multi-family	-	31,553	-	31,553
One-to-four family construction	-	-	3,148	3,148
Total	\$ 82,284	\$ 337,030	\$ 29,199	\$ 448,513

	Commercial Business	Other Real Estate Mortgage	Real Estate Construction	Commercial & Construction Total
March 31, 2014				
Commercial business	\$ 71,632	\$ -	\$ -	\$ 71,632
Commercial construction	-	-	15,618	15,618
Office buildings	-	77,476	-	77,476
Warehouse/industrial	-	45,632	-	45,632
Retail/shopping centers/strip malls	-	63,049	-	63,049
Assisted living facilities	-	7,585	-	7,585
Single purpose facilities	-	93,766	-	93,766
Land	-	16,245	-	16,245
Multi-family	-	21,128	-	21,128
One-to-four family construction	-	-	3,864	3,864
Total	\$ 71,632	\$ 324,881	\$ 19,482	\$ 415,995

Comparison of Financial Condition at December 31, 2014 and March 31, 2014

Cash, including interest-earning accounts, totaled \$22.0 million at December 31, 2014 compared to \$68.6 million at March 31, 2014. The Company has deployed a portion of its excess cash balances into mortgage-backed securities to earn higher yields than cash held in interest-earning accounts based on its asset/liability program and liquidity objectives in order to maximize earnings. As a part of this strategy, the Company also invests a portion of its excess cash in short-term certificates of deposit. All of the certificates of deposit held for investment are fully insured by the FDIC. At December 31, 2014, certificates of deposits held for investment totaled \$27.2 million compared to \$36.9 million at March 31, 2014.

Investment securities available for sale totaled \$17.2 million and \$23.4 million at December 31, 2014 and at March 31, 2014, respectively. The Company primarily purchases agency securities with maturities of five years or less. For the quarter ended December 31, 2014, the Company determined that none of its investment securities required an OTTI charge. For additional information, see Note 13 of the Notes to Consolidated Financial Statements contained in Item 1 of this Form 10-Q.

Mortgage-backed securities available-for-sale totaled \$101.2 million at December 31, 2014, compared to \$78.6 million at March 31, 2014. The increase was due to a decision by the Company to invest additional excess cash into higher yielding mortgage-backed securities. During the nine month period ended December 31, 2014, the Company purchased \$50.2 million of mortgage-backed securities. The Company also sold, during the three month period ended December 31, 2014, \$14.2 million of mortgage-backed securities in order to fund some loan originations and to generate gains on sale by taking advantage of market interest rate fluctuations. Realized gains totaled \$127,000 for both the three and nine months ended December 31, 2014. There were no sales of mortgage-backed securities for the three or nine months ended December 31, 2013. The Company primarily purchases a combination of mortgage-backed securities backed by government agencies (FHLMC, FNMA, SBA or GNMA).

Loans receivable, net, totaled \$567.4 million at December 31, 2014, compared to \$520.9 million at March 31, 2014. The increase was primarily due to \$31.6 million in net organic loan growth, concentrated in the commercial business,

commercial real estate and multi-family loan portfolios. The Company also had a \$14.9 million net increase in purchased automobile loan pools. The Company has seen an increase in loan demand in its market areas and anticipates organic loan growth will increase during fiscal year 2015. A substantial portion of the loan portfolio is secured by real estate, either as primary or secondary collateral, located in the Company's primary market areas. Risks associated with loans secured by real estate include decreasing land and property values, increases in interest rates, deterioration in local economic conditions, tightening credit or refinancing markets, and a concentration of loans within any one area. The Company has no option adjustable-rate mortgage (ARM), or teaser residential real estate loans in its portfolio.

Deposit accounts decreased \$736,000 to \$689.3 million at December 31, 2014, compared to \$690.1 million at March 31, 2014. The Company had no wholesale-brokered deposits as of December 31, 2014 or March 31, 2014. Core branch deposits accounted for 96.7% of total deposits at December 31, 2014, compared to 95.7% at March 31, 2014. The Company plans to continue its focus on core deposits and on building customer relationships as opposed to obtaining deposits through the wholesale markets.

Shareholders' Equity and Capital Resources

Shareholders' equity increased \$3.9 million to \$101.9 million at December 31, 2014 from \$98.0 million at March 31, 2014. The increase was mainly attributable to net income of \$3.0 million and other comprehensive income related to unrealized holding gain on securities available for sale of \$862,000 for the nine months ended December 31, 2014.

The Bank is subject to various regulatory capital requirements administered by the OCC. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. As of December 31, 2014, the Bank was "well capitalized" as defined under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain the minimum capital ratios set forth in the table below.

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

	Actual		"Adequately Capitalized"		"Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Total Capital:						
(To Risk-Weighted Assets)	\$ 91,891	15.59%	\$ 47,144	8.0%	\$ 70,716	12.0%(1)
Tier 1 Capital:						
(To Risk-Weighted Assets)	84,468	14.33	23,572	4.0	35,358	6.0
Tier 1 Capital (Leverage):						
(To Adjusted Tangible Assets)	84,468	10.72	31,522	4.0	70,926	9.0 (1)
Tangible Capital:						
(To Tangible Assets)	84,468	10.72	11,821	1.5	N/A	N/A

	Actual		"Adequately Capitalized"		"Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2014						
Total Capital:						
(To Risk-Weighted Assets)	\$ 90,733	16.66%	\$ 43,572	8.0%	\$ 65,359	12.0(1) %
Tier 1 Capital:						
(To Risk-Weighted Assets)	83,850	15.40	21,786	4.0	32,679	6.0
Tier 1 Capital (Leverage):						
(To Adjusted Tangible Assets)	83,850	10.71	31,320	4.0	70,469	9.0 (1)
Tangible Capital:						
(To Tangible Assets)	83,850	10.71	11,745	1.5	N/A	N/A

(1) The Bank agreed with the OCC to establish higher minimum capital ratios and to maintain a Tier 1 capital (leverage) ratio of not less than 9.0% and a total risk-based capital ratio of not less than 12.0% in order to be deemed "well capitalized".

Liquidity

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

In response to the recent adverse economic conditions, the Company has been, and will continue to work toward reducing the amount of nonperforming assets, managing balance sheet growth, reducing controllable operating costs,

and augmenting deposits while striving to maximize secured borrowing facilities to manage liquidity and capital levels over the coming fiscal year. However, the Company's inability to successfully implement its plans or further deterioration in economic conditions and real estate prices could have a material adverse effect on the Company's liquidity.

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

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

The Company must maintain an adequate level of liquidity to ensure the availability of sufficient funds for loan originations, deposit withdrawals and continuing operations, satisfy other financial commitments and take advantage of investment opportunities. During the nine months ended December 31, 2014, the Company used its sources of funds primarily to fund loan commitments, purchase investment securities and to fund deposit withdrawals. At December 31, 2014, cash and available for sale investments totaled \$167.6 million, or 20.2% of total assets. The Bank generally maintains sufficient cash and short-term investments to meet short-term liquidity needs; however, its primary liquidity management practice is to increase or decrease short-term borrowings, including FRB borrowings and FHLB advances. At December 31, 2014, the Bank had no advances from the FRB and a borrowing capacity of \$42.8 million from the FRB. At December 31, 2014, borrowings from the FHLB of Seattle totaled \$2.1 million and the Company had an available credit facility of \$186.2 million. At December 31, 2014, the Company had sufficient unpledged collateral to allow it to utilize its available borrowing capacity from the FRB and the FHLB. Borrowing capacity may, however, fluctuate based on acceptability and risk rating of loan collateral and counterparties could adjust discount rates applied to such collateral at their discretion.

An additional source of wholesale funding includes brokered certificate of deposits. While the Company has utilized brokered deposits from time to time, the Company historically has not relied on brokered deposits to fund its operations. At December 31, 2014, the Company had no wholesale-brokered deposits. The Company also participates in the CDARS and ICS deposit products, which allows the Company to accept deposits in excess of the FDIC insurance limit for that depositor and obtain “pass-through” insurance for the total deposit. The Bank’s reciprocal CDARS and ICS balances were \$28.7 million, or 4.2% of total deposits at December 31, 2014 compared to \$38.3 million, or 5.6% of total deposits at March 31, 2014. Although the FDIC permanently raised the insurance limit to \$250,000, demand for CDARS deposits remains strong with continued renewals of existing CDARS deposits and the opening of new accounts. In addition, the Bank is enrolled in an internet deposit listing service. Under this listing service, the Bank may post time deposit rates on an internet site where institutional investors have the ability to deposit funds with the Bank. The Company does not currently have any internet based deposits; however, the Company will continue to have accessibility to these funds in the future. The combination of all the Company’s funding sources, gives the Company available liquidity of \$492.9 million, or 59.5% of total assets at December 31, 2014.

The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor. The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution.

At December 31, 2014, the Company had total commitments of \$106.7 million, which includes commitments to extend credit of \$30.6 million, unused lines of credit and undisbursed balances of \$75.4 million and standby letters of credit totaling \$791,000. The Company anticipates that it will have sufficient funds available to meet current loan commitments. Certificates of deposits that are scheduled to mature in less than one year totaled \$92.3 million. Historically, the Bank has been able to retain a significant amount of its deposits as they mature. Offsetting these cash outflows are scheduled loan maturities of less than one year totaling \$69.2 million.

Sources of capital and liquidity for the Company include distributions from the Bank and the issuance of debt or equity securities. Dividends and other capital distributions from the Bank are subject to regulatory notice.

Asset Quality

Nonperforming assets, consisting of nonperforming loans and REO, totaled \$9.3 million or 1.13% of total assets at December 31, 2014 compared to \$21.8 million or 2.64% of total assets at March 31, 2014.

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

	December 31, 2014		March 31, 2014	
	Number of Loans	Balance	Number of Loans	Balance
Commercial business	1	\$ 96	4	\$ 452
Commercial real estate	5	3,003	8	8,067
Land	1	800	1	800
Multi-family	2	2,290	1	2,014
Consumer	11	1,540	9	2,729
Total	20	\$ 7,729	23	\$ 14,062

The Company has continued to focus on managing the residential construction and land acquisition and development portfolios. At December 31, 2014, the Company's residential construction and land acquisition and development loan portfolios were \$3.1 million and \$15.1 million, respectively compared to \$3.9 million and \$16.2 million, respectively at March 31, 2014. At December 31, 2014 and March 31, 2014, there were no nonperforming loans in the residential

construction loan portfolio. The percentage of nonperforming loans in the land acquisition and development portfolio at December 31, 2014 and March 31, 2014 was 5.31% and 4.92%, respectively. For the nine months ended December 31, 2014, there were no charge-offs or recoveries in the residential construction portfolio. There were no charge-offs in the land development portfolio; however, recoveries in the land development portfolio totaled \$220,000 for the nine months ended December 31, 2014.

REO totaled \$1.6 million at December 31, 2014 compared to \$7.7 million at March 31, 2014. During the nine months ended December 31, 2014, REO sales totaled \$6.2 million, valuation write-downs totaled \$715,000 and transfers to REO totaled \$804,000. The \$1.6 million balance of REO is comprised of residential building lots totaling \$769,000, land development property totaling \$502,000 and commercial real estate property totaling \$333,000. All of these properties are located in Washington and Oregon.

The allowance for loan losses was \$11.7 million or 2.02% of total loans at December 31, 2014 compared to \$12.6 million or 2.35% of total loans at March 31, 2014. The decrease in the balance of the allowance for loan losses at December 31, 2014 reflects the continuing trend of lower levels of delinquent and classified loans, decreased charge-offs and increased recoveries, as well as stabilizing real estate values which began in fiscal 2014, which resulted in the Company recording a recapture of loan losses of \$1.1 million for the nine months ended December 31, 2014.

The coverage ratio of allowance for loan losses to nonperforming loans was 151.39% at December 31, 2014 compared to 89.25% at March 31, 2014. At December 31, 2014, the Company identified \$7.2 million or 92.53% of its nonperforming loans, as impaired and performed a specific valuation analysis on each loan resulting in no specific reserves being required for these impaired loans. Management considers the allowance for loan losses to be adequate at December 31, 2014 to cover probable losses inherent in the loan portfolio based on the assessment of various factors affecting the loan portfolio and the Company believes it has established its existing allowance for loan losses in accordance with GAAP. However, a further decline in local economic conditions, results of examinations by the Company's regulators, or other factors could result in a material increase in the allowance for loan losses and may adversely affect the Company's financial condition and results of operations. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses will be adequate or that substantial increases will not be necessary should the quality of any loans deteriorate or should collateral values further decline as a result of the factors discussed elsewhere in this document. For further information regarding the Company's impaired loans and allowance for loan losses, see Note 8 of the Notes to Consolidated Financial Statements contained in Item 1 of this Form 10-Q.

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

TDRs are considered impaired loans and as such, when a loan is deemed to be impaired, the amount of the impairment is measured using discounted cash flows using the original note rate, except when the loan is collateral dependent. In these cases, the estimated fair value of the collateral and when applicable, less selling costs, are used. Impairment is recognized as a specific component within the allowance for loan losses if the value of the impaired loan is less than the recorded investment in the loan. When the amount of the impairment represents a confirmed loss, it is charged off against the allowance for loan losses. At December 31, 2014, the Company had TDRs totaling \$22.2 million of which \$16.8 million were on accrual status. However, all of the Company's TDRs are paying as agreed except for two of the Company's TDRs that defaulted since the loan was modified. The related amount of interest income recognized on TDRs was \$437,000 for the nine months ended December 31, 2014.

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

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

The following table sets forth information regarding the Company's nonperforming assets at the dates indicated.

	December 31, 2014	March 31, 2014
(Dollars in thousands)		
Loans accounted for on a non-accrual basis:		
Commercial business	\$ 96	\$ 452
Other real estate mortgage	6,093	10,881
Consumer	1,540	2,729
Total	7,729	14,062
Accruing loans which are contractually past due 90 days or more		
	-	-
Total nonperforming loans	7,729	14,062
REO	1,604	7,703
Total nonperforming assets	\$ 9,333	\$ 21,765
Foregone interest on non-accrual loans (1)		
	\$ 351	\$ 949
Total nonperforming loans to total loans	1.33%	2.64%
Total nonperforming loans to total assets	0.93	1.71
Total nonperforming assets to total assets	1.13	2.64

(1) Nine months ended December 31, 2014 and twelve months ended March 31, 2014

The composition of the Company's nonperforming assets by loan type and geographical area is as follows at the dates indicated:

	Northwest Oregon	Other Oregon	Southwest Washington	Other Washington	Other	Total
December 31, 2014						
Commercial business	\$ -	\$ -	\$ -	\$ -	\$ 96	\$ 96
Commercial real estate	2,077	-	926	-	-	3,003
Land	-	800	-	-	-	800
Multi-family	-	1,933	357	-	-	2,290
Consumer	443	-	783	270	44	1,540
Total nonperforming loans	2,520	2,733	2,066	270	140	7,729
REO	\$ 374	\$ -	\$ 1,185	\$ 45	-	1,604
Total nonperforming assets	\$ 2,894	\$ 2,733	\$ 3,251	\$ 315	\$ 140	\$ 9,333
March 31, 2014						

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

Commercial business	\$ -	\$ -	\$ 452	\$ -	\$ -	\$ 452
Commercial real estate	2,194	-	5,873	-	-	8,067
Land	-	800	-	-	-	800
Multi-family	2,014	-	-	-	-	2,014
Consumer	395	-	2,065	269	-	2,729
Total nonperforming loans	4,603	800	8,390	269	-	14,062
REO	\$ 374	\$ 542	\$ 5,966	\$ 821	-	7,703
Total nonperforming assets	\$ 4,977	\$ 1,342	\$ 14,356	\$ 1,090	\$ -	\$ 21,765

The composition of the land development and speculative construction loan portfolios by geographical area is as follows at the dates indicated:

	Northwest Oregon	Other Oregon	Southwest Washington (in thousands)	Other	Total
December 31, 2014					
Land development	\$ 111	\$ 2,924	\$ 12,027	\$ -	\$ 15,062
Speculative construction	-	-	2,190	204	2,394
Total land development and speculative construction	\$ 111	\$ 2,924	\$ 14,217	\$ 204	\$ 17,456
March 31, 2014					
Land development	\$ 2,676	\$ 1,184	\$ 12,385	\$ -	\$ 16,245
Speculative construction	-	-	3,617	30	3,647
Total land development and speculative construction	\$ 2,676	\$ 1,184	\$ 16,002	\$ 30	\$ 19,892

Other loans of concern consist of loans where the borrowers have cash flow problems, or the collateral securing the respective loans may be inadequate. In either or both of these situations, the borrowers may be unable to comply with the present loan repayment terms, and the loans may subsequently be included in the non-accrual category. Management considers the allowance for loan losses to be adequate to cover the probable losses inherent in these and other loans.

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

	December 31, 2014		March 31, 2014	
	Number of Loans	Balance	Number of Loans	Balance
Commercial business	8	\$ 577	15	\$ 7,967
Commercial real estate	9	9,190	11	11,771
Multi-family	1	13	1	14
Commercial construction	1	1,843	-	-
Total	19	\$ 11,623	27	\$ 19,752

At December 31, 2014 and March 31, 2014, loans delinquent 30 - 89 days were 0.44% and -0.42%, respectively, of total loans. At December 31, 2014, the delinquency rate in the commercial business portfolio was 0.22% while the delinquency rate in the commercial real estate loan portfolio was 0.54%, comprised of one loan totaling \$1.6 million. At that date, commercial real estate loans represented the largest portion of the loan portfolio at 50.15% of total loans and commercial business loans represented 14.21% of total loans. At December 31, 2014, the 30-89 days delinquency rate in the real estate one-to-four family loan portfolio was 0.74%.

Off-Balance Sheet Arrangements and Other Contractual Obligations

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

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

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

For further information regarding the Company's off-balance sheet arrangements and other contractual obligations, see Note 16 of the Notes to Consolidated Financial Statements contained in Item 1 of this Form 10-Q.

Goodwill Valuation

Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is presumed to have an indefinite useful life and is tested, at least annually, for impairment at the reporting unit level. The Company has one reporting unit, the Bank, for purposes of computing goodwill. All of the Company's goodwill has been allocated to this single reporting unit. The

Company performs an annual review in the third quarter of each year, or more frequently if indications of potential impairment exist, to determine if the recorded goodwill is impaired. If the fair value exceeds the carrying value, goodwill at the reporting unit level is not considered impaired and no additional analysis is necessary. If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist and additional analysis must be performed to measure the amount of impairment loss, if any. The amount of impairment is determined by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the goodwill in the same manner as if the reporting unit was being acquired in a business combination. Specifically, the Company would allocate the fair value to all of the assets and liabilities of the reporting unit, including unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, the Company would record an impairment charge for the difference.

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

The Company performed its annual goodwill impairment test during the quarter-ended December 31, 2014. The goodwill impairment test involves a two-step process. Step one of the goodwill impairment test estimates the fair value of the reporting unit utilizing the allocation of corporate value approach, the income approach and the market approach in order to derive an enterprise value of the Company. The allocation of corporate value approach applies the aggregate market value of the Company and divides it among the reporting units. A key assumption in this approach is the control premium applied to the aggregate market value. A control premium is utilized as the value of a company from the perspective of a controlling interest and is generally higher than the widely quoted market price per share. The Company used an expected control premium of 30%, which was based on comparable transactional history. The income approach uses a reporting unit's projection of estimated operating results and cash flows that is discounted using a rate that reflects current market conditions. The projection uses management's best estimates of economic and market conditions over the projected period including growth rates in loans and deposits, estimates of future expected changes in net interest margins and cash expenditures. Assumptions used by the Company in its discounted cash flow model (income approach) included an annual revenue growth rate that approximated 8.5%, a net interest margin that approximated 4.1% and a return on assets that ranged from 0.60% to 1.11% (average of 0.86%). In addition to utilizing the above projections of estimated operating results, key assumptions used to determine the fair value estimate under the income approach was the discount rate of 15.2% utilized for our cash flow estimates and a terminal value estimated at 2.1 times the ending book value of the reporting unit. The Company used a build-up approach in developing the discount rate that included: an assessment of the risk free interest rate, the rate of return expected from publicly traded stocks, the industry the Company operates in and the size of the Company. The market approach estimates fair value by applying tangible book value multiples to the reporting unit's operating performance. The multiples are derived from comparable publicly traded companies with similar operating and investment characteristics of the reporting unit. In applying the market approach method, the Company selected eight publicly traded comparable institutions based on a variety of financial metrics (tangible equity, leverage ratio, return on assets, return on equity, net interest margin, nonperforming assets, net charge-offs, and reserves for loan losses) and other relevant qualitative factors (geographical location, lines of business, business model, risk profile, availability of financial information, etc.). After selecting comparable institutions, the Company derived the fair value of the reporting unit by completing a comparative analysis of the relationship between their financial metrics listed above and their market values utilizing a market multiple of 1.3 times tangible book value. The Company calculated a fair value of its reporting unit of \$130.5 million using the corporate value approach, \$135.5 million using the income approach and \$134.7 million using the market approach, with a final concluded value of \$135.0 million, with primary weight given to the market approach. The results of the Company's step one test indicated that the reporting unit's fair value was greater than its carrying value and therefore no impairment of goodwill exists at December 31, 2014.

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

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

Comparison of Operating Results for the Three and Nine Months Ended December 31, 2014 and 2013

Net Income. Net income for the three months ended December 31, 2014 and 2013 was \$1.1 million, or \$0.05 per diluted share, compared to \$801,000, or \$0.04 per diluted share, respectively. Net income for the nine months ended December 31, 2014 and 2013 was \$3.0 million, or \$0.13 per diluted share, compared to \$2.8 million, or \$0.12 per diluted share, respectively. The earnings for the three and nine months ended December 31, 2014 compared to the

same prior year period reflects the improvement in net interest income. Furthermore, earnings improved for the nine months ended December 31, 2014 due to the reduction in non-interest expenses, primarily due to the decrease in REO expenses. In addition, net income for the nine month ended December 31, 2014 included a recapture of loan losses of \$1.1 million compared to a recapture of loan losses of \$2.5 million for the nine months ended December 31, 2013.

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

Net interest income for the three and nine months ended December 31, 2014 was \$6.7 million and \$19.8 million, respectively, representing a \$690,000 and \$1.5 million increase compared to the three and nine months ended December 31, 2013, respectively. The net interest margin for the three and nine months ended December 31, 2014 was 3.58% and 3.55%, respectively, compared to 3.29% and 3.39% for the three and nine months ended December 31, 2013, respectively. This increase was primarily the result of the increase in the average balance of loans receivable and short term investments as well as the decrease in average cost of interest bearing deposits.

The Company generally achieves better net interest margins in a stable or increasing interest rate environment as a result of the balance sheet being slightly asset interest rate sensitive. At December 31, 2014, 6.62% of our loan portfolio had adjustable (floating) interest rates. At December 31, 2014, \$25.2 million, or 65.73% of our adjustable (floating) loan portfolio contained interest rate floors, below which the loan's contractual interest rate may not adjust. The inability of these loans to adjust downward has contributed to increased income in the currently low interest rate environment; however, net interest income will be reduced in a rising interest rate environment until such time as the current rate exceeds these interest rate floors. At December 31, 2014, \$25.2 million or 4.35% of the loans in the Company's loan portfolio were at the floor interest rate of which \$22.3 million or 88.69% had yields that would begin floating again once the Wall Street Journal Prime Rate increases at least 150 basis points. While the Company does not anticipate further significant reductions in market interest rates, further modest reductions in its deposit costs are expected due to decreases in its deposit rate offerings and as existing long-term deposits renew upon maturity and reprice at a lower rate. The amount and timing of these reductions is dependent on competitive pricing pressures, yield curve shape and changes in interest rate spread.

Interest Income. Interest income for the three and nine months ended December 31, 2014, was \$7.2 million and \$21.3 million, respectively, compared to \$6.7 million and \$20.3 million, respectively, for the same periods in the prior year. The increase was due primarily to the increase in the average balance of investment securities and mortgage-backed securities which resulted in an increase in interest income of \$66,000 and \$1.4 million, respectively for the nine months ended December 31, 2014 compared the same prior year period. This increase was offset by a decrease of interest income on loans of \$234,000 for the nine months ended December 31, 2014 compared the same prior year period due primarily to the impact of loans repricing down to the current low interest rates.

The average balance of net loans increased \$37.5 million and \$23.5 million to \$554.4 million and \$548.0 million for the three and nine months ended December 31, 2014, respectively, from \$516.9 million and \$524.6 million for the same prior year periods, respectively. The average yield on net loans was 4.65% and 4.64% for the three and nine months ended December 31, 2014, respectively, compared to 4.85% and 4.91% for the same three and nine months in the prior year. The decrease in the average yield on net loans was primarily due to the impact of loans repricing downward in the current low interest rate environment and the lower yields on the purchased automobile loan pools. During the three and nine months ended December 31, 2014, the Company also reversed \$2,000 and \$15,000, respectively, of interest income on nonperforming loans compared to \$7,000 and \$149,000 for the same three and nine month period in the prior year.

Interest Expense. Interest expense decreased \$160,000 and \$504,000 to \$485,000 and \$1.5 million for the three and nine months ended December 31, 2014, respectively, compared to \$645,000 and \$2.0 million for the three and nine months ended December 31, 2013. The decrease in interest expense was primarily the result of declining deposit costs, due to the Company's decision to further reduce its deposit rate offerings in light of the continued low interest rate environment, and to a lesser extent a decline in the average balance of higher costing certificates of deposit. The Company has continued to lower its deposit costs throughout the year on many of its deposit products. The weighted average interest rate on interest-bearing deposits decreased to 0.23% and 0.25% for the three and nine months ended December 31, 2014, respectively from 0.35% and 0.37% for the same respective periods in the prior year.

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

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

	Three Months Ended December 31,					
	Average Balance	2014 Interest and Dividends	Yield/Cost	Average Balance	2013 Interest and Dividends	Yield/Cost
(Dollars in thousands)						
Interest-earning assets:						
Mortgage loans	\$ 426,280	\$ 5,029	4.68%	\$ 424,382	\$ 5,107	4.77%
Non-mortgage loans	128,096	1,469	4.55	92,482	1,212	5.20
Total net loans (1)	554,376	6,498	4.65	516,864	6,319	4.85
Mortgage-backed securities (2)						
Investment securities (2)	117,023	520	1.76	23,584	88	1.48
Daily interest-bearing assets	1,483	-	-	1,192	-	-
Other earning assets	51,808	110	0.84	165,800	191	0.46
Total interest-earning assets	744,351	7,203	3.84	727,943	6,673	3.64
Non-interest-earning assets:						
Office properties and equipment, net	15,841			16,931		
Other non-interest-earning assets	71,057			53,572		
Total assets	\$ 831,249			\$ 798,446		
Interest-bearing liabilities:						
Regular savings accounts	\$ 72,462	18	0.10	\$ 61,616	23	0.15
Interest checking accounts	104,172	20	0.08	93,930	26	0.11
Money market deposit accounts	226,694	69	0.12	228,579	128	0.22
Certificates of deposit	144,001	215	0.59	172,127	319	0.74
Total interest-bearing deposits	547,329	322	0.23	556,252	496	0.35
Other interest-bearing liabilities	26,088	163	2.48	25,075	149	2.36
Total interest-bearing liabilities	573,417	485	0.34	581,327	645	0.44

Non-interest-bearing liabilities:			
Non-interest-bearing deposits	146,366	123,915	
Other liabilities	9,139	10,539	
Total liabilities	728,922	715,781	
Shareholders' equity	102,327	82,665	
Total liabilities and shareholders' equity	\$ 831,249	\$ 798,446	
Net interest income	\$ 6,718	\$ 6,028	
Interest rate spread		3.50%	3.20%
Net interest margin		3.58%	3.29%
Ratio of average interest-earning assets to average interest-bearing liabilities		129.81%	125.22%

(1) Includes non-accrual loans.

(2) For purposes of the computation of average yield on investments available for sale, historical cost balances were utilized;

therefore, the yield information does not give effect to changes in fair value that are reflected as a component of shareholders' equity.

	Nine Months Ended December 31,					
	Average Balance	2014 Interest and Dividends	Yield/Cost	Average Balance	2013 Interest and Dividends	Yield/Cost
(Dollars in thousands)						
Interest-earning assets:						
Mortgage loans	\$ 423,193	\$ 14,852	4.66%	\$ 438,211	\$ 15,748	4.77%
Non-mortgage loans	124,848	4,303	4.57	86,358	3,641	5.60
Total net loans (1)	548,041	19,155	4.64	524,569	19,389	4.91
Mortgage-backed securities (2)						
	104,370	1,508	1.92	13,144	156	1.58
Investment securities (2)	20,781	257	1.64	17,580	191	1.44
Daily interest-bearing assets						
	1,289	-	-	1,206	-	-
Other earning assets	65,470	359	0.73	159,875	532	0.44
Total interest-earning assets	739,951	21,279	3.82	716,374	20,268	3.76
Non-interest-earning assets:						
Office properties and equipment, net	16,115			17,388		
Other non-interest-earning assets	69,989			52,091		
Total assets	\$ 826,055			\$ 785,853		
Interest-bearing liabilities:						
Regular savings accounts	\$ 69,693	53	0.10	\$ 58,268	66	0.15
Interest checking accounts	102,281	58	0.08	91,698	78	0.11
Money market deposit accounts	227,966	209	0.12	222,629	372	0.22
Certificates of deposit	151,339	704	0.62	177,182	1,021	0.76
Total interest-bearing deposits	551,279	1,024	0.25	549,777	1,537	0.37
Other interest-bearing liabilities						
	25,391	458	2.39	25,102	449	2.37
Total interest-bearing liabilities	576,670	1,482	0.34	574,879	1,986	0.46
Non-interest-bearing liabilities:						
	138,685			119,642		

Non-interest-bearing
deposits

Other liabilities	9,679		9,804	
Total liabilities	725,034		704,325	
Shareholders' equity	101,021		81,528	
Total liabilities and shareholders' equity	\$ 826,055		\$ 785,853	
Net interest income		\$ 19,797		\$ 18,282
Interest rate spread		3.48%		3.30%
Net interest margin		3.55%		3.39%
Ratio of average interest-earning assets to average interest-bearing liabilities		128.31%		124.61%

(1) Includes non-accrual loans.

(2) For purposes of the computation of average yield on investments available for sale, historical cost balances were utilized;

therefore, the yield information does not give effect to changes in fair value that are reflected as a component of shareholders' equity.

The following table sets forth the effects of changing rates and volumes on net interest income of the Company for the three and nine month periods ended December 31, 2014 compared to the three and nine month periods ended December 31, 2013. Variances that were insignificant have been allocated based upon the percentage relationship of changes in volume and changes in rate to the total net change.

(in thousands)	Three Months Ended December 31, 2014 vs. 2013			Nine Months Ended December 31, 2014 vs. 2013		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
Interest Income:						
Mortgage loans	\$ 22	\$ (100)	\$ (78)	\$ (536)	\$ (360)	\$ (896)
Non-mortgage loans	423	(166)	257	1,417	(755)	662
Mortgage-backed securities	412	20	432	1,311	41	1,352
Investment securities (1)	(3)	3	-	38	28	66
Daily interest-bearing	-	-	-	-	-	-
Other earning assets	(181)	100	(81)	(412)	239	(173)
Total interest income	673	(143)	530	1,818	(807)	1,011
Interest Expense:						
Regular savings accounts	4	(9)	(5)	12	(25)	(13)
Interest checking accounts	2	(8)	(6)	7	(27)	(20)
Money market deposit accounts	(1)	(58)	(59)	9	(172)	(163)
Certificates of deposit	(46)	(58)	(104)	(140)	(177)	(317)
Other interest-bearing liabilities	6	8	14	5	4	9
Total interest expense	(35)	(125)	(160)	(107)	(397)	(504)
Net interest income	\$ 708	\$ (18)	\$ 690	\$ 1,925	\$ (410)	\$ 1,515

(1) Interest is presented on a fully tax-equivalent basis using a tax rate of 34%

Provision for Loan Losses. The recapture of loan losses for the three and nine months ended December 31, 2014 was \$400,000 and \$1.1 million, respectively. This compares to no provision for loan losses for the three months ended December 31, 2013 and a recapture of loan losses of \$2.5 million for the nine months ended December 31, 2013. The recapture of loan losses was primarily a result of a decrease in net charge-offs and the decline in the level of delinquent, nonperforming and classified loans, as well as the stabilization of real estate values in our market areas. Although real estate values and the economy in our market areas have recently improved, classified and nonperforming loans remain at higher levels compared to historical trends.

Net recoveries for the three and nine months ended December 31, 2014 were \$100,000 and \$200,000, respectively, compared to net recoveries of \$352,000 and \$905,000 for the three and nine months ended December 31, 2013, respectively. Annualized net recoveries to average net loans for the nine-month period ended December 31, 2014 was 0.05% compared 0.23% for the same period in the prior year. The net recoveries occurred primarily as a result of the decrease in nonperforming loans and stabilization of real estate values as well as an increase in recoveries on previously charged off loans. Nonperforming loans were \$7.7 million at December 31, 2014, compared to \$13.4 million at December 31, 2013. The ratio of allowance for loan losses to nonperforming loans was 151.39% at December 31, 2014 compared to 105.02% at December 31, 2013. See “Asset Quality” set forth above for additional information related to asset quality that management considers in determining the provision for loan losses.

Impaired loans are subjected to an impairment analysis to determine an appropriate reserve amount to be held against each loan. As of December 31, 2014, the Company had identified \$24.0 million of impaired loans. Because the significant majority of the impaired loans are collateral dependent, nearly all of the specific allowances are calculated based on the fair value of the collateral. Of the total impaired loans, \$21.1 million have no specific valuation allowance as their estimated collateral value is equal to or exceeds the carrying costs, which in some cases is the result of previous loan charge-offs. Charge-offs on these impaired loans totaled \$533,000 from their original loan balance. The remaining \$2.9 million have specific valuation allowances totaling \$136,000.

Non-Interest Income. Non-interest income decreased \$120,000 to \$2.3 million for the three months ended December 31, 2014 compared to \$2.4 million for the same prior year period. Non-interest income increased \$180,000 to \$6.7 million for the nine months ended December 31, 2014, compared to \$6.5 million for the nine months ended December 31, 2013. The decrease of \$120,000 for the three months ended December 31, 2014 compared to the same period in prior year was due to a decrease in gains on transfer of loans to real estate owned of \$229,000 and a decrease in fees and service charges of \$145,000. These decreases were offset by an increase in gains on sales of investment securities of \$158,000 and an increase in asset management fees of \$113,000. Asset management fees increased primarily as a result of an increase in assets under management as compared to the same period last year.

The \$180,000 increase for the nine months ended December 31, 2014 compared to the same period in prior year was primarily a result of a \$312,000 increase in asset management fees and a \$109,000 increase in the cash surrender value of bank owned life insurance policies. These increases were offset by a decrease in fees and service charges of \$41,000 and a decrease of \$174,000 in gain on sale of loans held for sale, which was primarily due to the decrease in mortgage related activity as a result of an increase in mortgage interest rates which curtailed refinancing activity.

Non-Interest Expense. Non-interest expense remained relatively stable for the three months ended December 31, 2014 as compared to the same period in prior year at \$7.6 million for both periods. Non-interest expense decreased \$1.4 million to \$23.1 million for the nine months ended December 31, 2014, compared to \$24.5 million for the nine months ended December 31, 2013. Management continues to focus on managing controllable costs as the Company proactively adjusts to lower levels of real estate lending activity. REO expenses (which include operating costs and write-downs on property) decreased \$1.5 million for the nine months ended December 31, 2014 primarily due to the overall decrease in REO balances at December 31, 2014 compared to December 31, 2013. Data processing expenses decreased \$242,000 for the nine months ended December 31, 2014 compared to the same period in the prior year as a result of conversion related expenses in the prior year for the Company's core operating system conversion. The Company's FDIC insurance premiums also decreased \$730,000 for the nine months ended December 31, 2014 compared to the same period in prior year reflecting the Bank's improved financial condition. Offsetting these decreases was an increase in salaries and employee benefits of \$1.3 million for the nine months ended December 31, 2014 compared to the same prior year period. The increase in salaries and employee benefits was due to an increase in staffing in the Company's lending groups as well as the reinstatement of the Company's incentive plans.

Income Taxes. The provision for income taxes was \$587,000 and \$1.5 million for the three and nine months ended December 31, 2014 compared to none and \$16,000 for the three and nine months ended December 31, 2013. As of December 31, 2013, the Company carried a deferred tax asset valuation allowance against its deferred tax asset which resulted in the minimum tax expense incurred during the three and nine months ended December 31, 2013. The Company's effective tax rate at December 31, 2014 remains lower than the statutory tax rate primarily as a result of non-taxable income generated from investments in bank owned life insurance. At March 31, 2014, the Company reversed its deferred tax asset valuation allowance related to the Company's deferred tax assets as management deemed that it was no longer appropriate to carry a deferred tax asset valuation allowance as a result of changes in the factors considered by management when the Company initially established the valuation allowance. In making this conclusion, management considered, among other factors, the Company's earnings during the past three years, including the Company's recent financial performance, the improvement in the Company's asset quality and financial condition, as well as projected earnings and the impact from the Company's balance sheet restructure.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has not been any material change in the market risk disclosures contained in the 2014 Form 10-K.

Item 4. Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13(a) - 15(e) of the Securities Exchange Act of 1934) as of December 31, 2014 was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as in effect on December 31, 2014 were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Securities and Exchange Act of 1934 is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In the quarter-ended December 31, 2014, the Company did not make any changes in its internal control over financial reporting that has materially affected, or is reasonably likely to

materially affect these controls.

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

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

Item 1. Legal Proceedings

The Company is party to litigation arising in the ordinary course of business. In the opinion of management, these actions will not have a material adverse effect, on the Company's financial position, results of operations, or liquidity.

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Part I. Item 1A of the Company's Form 10-K for the year ended March 31, 2014.

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

None.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

- (a) Exhibits:
- 3.1 Articles of Incorporation of the Registrant (1)
 - 3.2 Bylaws of the Registrant (1)
 - 4 Form of Certificate of Common Stock of the Registrant (1)
 - 10.1 Form of Employment Agreement between the Company and the Bank and each of Patrick Sheaffer, Ronald A. Wyseske and Kevin J. Lycklama
 - 10.2 Form of Change in Control Agreement between the Company and the Bank and each of Patrick Sheaffer, Ronald A. Wyseske and Kevin J. Lycklama
 - 10.3 Form of Employment Agreement between the Bank and John A. Karas (2)
 - 10.4 Employee Severance Compensation Plan (3)
 - 10.5 Employee Stock Ownership Plan (4)
 - 10.6 1998 Stock Option Plan (5)
 - 10.7 2003 Stock Option Plan (6)
 - 10.8 Form of Incentive Stock Option Award Pursuant to 2003 Stock Option Plan (7)
 - 10.9 Form of Non-qualified Stock Option Award Pursuant to 2003 Stock Option Plan (7)
 - 10.10 Deferred Compensation Plan (8)
 - 11 Statement recomputation of per share earnings (See Note 4 of Notes to Consolidated Financial Statements contained herein.)
 - 31.1 Certifications of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
 - 31.2 Certifications of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
 - 32 Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act
 - 101 The following materials from Riverview Bancorp Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2014, formatted on Extensible Business Reporting Language (XBRL) (a) Consolidated Balance Sheets; (b) Consolidated Statements of Income; (c) Consolidated Statements of Comprehensive Income; (d) Consolidated Statements of Equity (e) Consolidated Statements of Cash Flows; and (f) Notes to Consolidated Financial Statements (9)

- (1) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (Registration No. 333-30203), and incorporated herein by reference.
- (2) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on September 18, 2007 and incorporated herein by reference.
- (3) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter-ended September 30, 1997, and incorporated herein by reference.
- (4) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended March 31, 1998, and incorporated herein by reference.
- (5) Filed as an exhibit to the Registrant's Registration Statement on Form S-8 (Registration No. 333-66049), and incorporated herein by reference.
- (6) Filed as an exhibit to the Registrant's Definitive Annual Meeting Proxy Statement (000-22957), filed with the Commission on June 5, 2003, and incorporated herein by reference.
- (7) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter-ended December 31, 2005, and incorporated herein by reference.
- (8)

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

- (9) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise not subject to liability under those sections.

SIGNATURES

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

RIVERVIEW BANCORP, INC.

By: /s/ Patrick Sheaffer
Patrick Sheaffer
Chairman of the Board and
Chief Executive Officer
(Principal Financial Officer)

By: /s/ Kevin J. Lycklama
Kevin J. Lycklama
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: February 12, 2015

Date: February 12, 2015

EXHIBIT INDEX

- 10.1 Form of Employment Agreement between the Company and the Bank and each of Patrick Sheaffer, Ronald A. Wysaske and Kevin J. Lycklama
- 10.2 Form of Change in Control Agreement between the Company and the Bank and each of Patrick Sheaffer, Ronald A. Wysaske and Kevin J. Lycklama
 - 31.1 Certifications of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
 - 31.2 Certifications of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
- 32 Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act
- 101* The following materials from Riverview Bancorp Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2014, formatted on Extensible Business Reporting Language (XBRL) (a) Consolidated Balance Sheets; (b) Consolidated Statements of Income; (c) Consolidated Statements of Comprehensive Income; (d) Consolidated Statements of Equity (e) Consolidated Statements of Cash Flows; and (f) Notes to Consolidated Financial Statements

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise not subject to liability under those sections.