

RIVERVIEW BANCORP INC  
Form 10-K  
June 13, 2014  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended March 31, 2014OR

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

Commission File Number: 0-22957

RIVERVIEW BANCORP, INC.

---

(Exact name of registrant as specified in its charter)

Washington 91-1838969  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer I.D. Number)

900 Washington St., Ste. 900, Vancouver, Washington 98660  
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, Par Value \$.01 per share Nasdaq Stock Market LLC  
(Title of Each Class) (Name of Each Exchange on Which Registered)

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

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

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

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

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

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

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 definition 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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing sales price of the registrant's Common Stock as quoted on the Nasdaq Global Select Market System under the symbol "RVSB" on September 30, 2013 was \$59,101,071 (22,471,890 shares at \$2.63 per share). As of May 31, 2014, there were issued and outstanding 22,471,890 shares of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's Definitive Proxy Statement for the 2014 Annual Meeting of Shareholders (Part III).

## Table of Contents

PART I		PAGE
Item 1.	Business	4
Item 1A.	Risk Factors	34
Item 1B.	Unresolved Staff Comments	45
Item 2.	Properties	45
Item 3.	Legal Proceedings	45
Item 4.	Mine Safety Disclosures	45
PART II		
Item 5.	Market of Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	46
Item 6.	Selected Financial Data	48
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	50
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	68
Item 8.	Financial Statements and Supplementary Data	70
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	107
Item 9A.	Controls and Procedures	107
Item 9B.	Other Information	108
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	108
Item 11.	Executive Compensation	109
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholders	109
Item 13.	Certain Relationships and Related Transactions, and Director Independence	109
Item 14.	Principal Accounting Fees and Services	109
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	110
Signatures		111
Index to Exhibits		112

### Special Note Regarding Forward-Looking Statements

As used in this Form 10-K, 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-K 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; the Company’s compliance with regulatory enforcement actions entered into with its banking regulators and the possibility that noncompliance could result in the imposition of additional enforcement actions and additional requirements or restrictions on its operations; legislative or regulatory changes that adversely affect the Company’s business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III; the Company’s ability to attract and retain deposits; 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

### Item 1. Business

#### General

Riverview Bancorp, Inc., a Washington corporation, is the savings and loan holding company of Riverview Community Bank (the "Bank"). At March 31, 2014, the Company had total assets of \$824.5 million, total deposit accounts of \$690.1 million and shareholders' equity of \$98.0 million. The Company's executive offices are located in Vancouver Washington.

The Company is subject to regulation by the Board of Governors of the Federal Reserve Systems ("Federal Reserve"). Substantially all of the Company's business is conducted through the Bank which is regulated by the Office of the Comptroller of the Currency ("OCC"), its primary regulator, and by the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. The Bank's deposits are insured by the FDIC up to applicable legal limits under the Deposit Insurance Fund ("DIF"). The Bank has been a member of the Federal Home Loan Bank of Seattle ("FHLB") since 1937.

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 \$520.9 million at March 31, 2014 compared to \$520.4 million a year ago.

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. The Company also purchased two separate pools of automobile loans during fiscal 2014 totaling \$22.1 million 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.

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 March 31, 2014, checking accounts totaled \$233.2 million, or 33.8% of our total deposit mix compared to \$204.3 million or 30.8% a year ago. Our strategic plan also stresses increased emphasis on non-interest income, including increased fees for asset management through the Bank's subsidiary, Riverview Asset Management Corp. ("RAMCorp") a trust and financial services company, and deposit service charges. The strategic plan is designed to enhance earnings, reduce interest rate risk and provide a more complete range of financial services to customers and the local communities the Company serves. We believe we are well positioned to attract new customers and to increase our market share through our 18 branches, including ten in Clark County, three in the Portland metropolitan area and three lending centers, including our most recently opened full-service branch in Gresham, Oregon.



## Market Area

The Company conducts operations from its home office in Vancouver and 18 branch offices located in Camas, Washougal, Stevenson, White Salmon, Battle Ground, Goldendale, Vancouver (seven branch offices) and Longview, Washington and Portland, Gresham, Wood Village and Aumsville, Oregon. RAMCorp, our trust and financial services company is located in downtown Vancouver, Washington. Riverview Mortgage, a mortgage broker division of the Bank, originates mortgage loans for various mortgage companies predominantly in the Vancouver/Portland metropolitan areas, as well as for the Bank. The Bank's Business and Professional Banking Division, with one lending office in Vancouver and one lending office in Portland, Oregon offers commercial and business banking services. The Bank also operates a lending office for mortgage banking activities in Vancouver.

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.

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. Unemployment in the Company's market areas decreased in both Clark County, Washington and Portland, Oregon. According to the Washington State Employment Security Department, unemployment in Clark County decreased to 7.5% at March 31, 2014 compared to 10.1% at March 31, 2013. According to the Oregon Employment Department, unemployment in Portland decreased to 6.9% at March 31, 2014 compared to 7.5% at March 31, 2013. According to the Regional Multiple Listing Services ("RMLS"), residential home inventory levels in Portland, Oregon have slightly decreased to 3.1 months at March 31, 2014 compared to 3.2 months at March 31, 2013. Residential home inventory levels in Clark County have slightly increased to 4.6 months at March 31, 2014 compared to 4.4 months at March 31, 2013. According to the RMLS, closed home sales in Clark County remained constant during March 2014 compared to March 2013. Closed home sales at March 2014 in Portland decreased 4.0% compared to March 2013. Commercial real estate leasing activity in the Portland/Vancouver 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 (a firm specializing in Pacific Northwest commercial real estate sales and management) commercial vacancy rates in Clark County, Washington and Portland, Oregon were approximately 10.38% and 14.60%, respectively, as of March 31, 2014 compared to 12.24% and 17.11%, respectively, at March 31, 2013. The Company has also seen an increase in sales activity for building lots during the past twelve months.

## Lending Activities

General. At March 31, 2014, the Company's net loans receivable totaled \$520.9 million, or 63.2% of total assets at that date. The principal lending activity of the Company is the origination of loans collateralized by commercial properties and commercial business loans. A substantial portion of the Company's loan portfolio is secured by real estate, either as primary or secondary collateral, located in its primary market area. The Company's lending activities are subject to the written, non-discriminatory, underwriting standards and loan origination procedures established by the Bank's Board of Directors ("Board") and management. The customary sources of loan originations are realtors, walk-in customers, referrals and existing customers. The Bank also uses commissioned loan brokers and print advertising to market its products and services. Loans are approved at various levels of management, depending upon the amount of the loan.





Loan Portfolio Analysis. The following table sets forth the composition of the Company's loan portfolio, excluding loans held for sale, by type of loan at the dates indicated.

	2014		2013		At March 31, 2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
Commercial and construction:										
Commercial business	\$ 71,632	13.43%	\$ 71,935	13.42%	\$ 87,238	12.74%	\$ 85,511	12.44%	\$ 108,368	14.76%
Other real estate mortgage	324,881	60.90	355,397	66.30	434,763	63.49	461,955	67.19	459,178	62.52
Real estate construction	19,482	3.65	9,675	1.81	25,791	3.76	27,385	3.98	75,456	10.27
T o t a l commercial and construction	415,995	77.98	437,007	81.53	547,792	79.99	574,851	83.61	643,002	87.55
Consumer:										
Real estate one-to-four family	93,007	17.43	97,140	18.12	134,975	19.71	110,437	16.06	88,861	12.10
Other installment	24,486	4.59	1,865	0.35	2,042	0.30	2,289	0.33	2,616	0.35
Total consumer loans	117,493	22.02	99,005	18.47	137,017	20.01	112,726	16.39	91,477	12.45
Total loans	533,488	100.00%	536,012	100.00%	684,809	100.00%	687,577	100.00%	734,479	100.00%
Less:										
Allowance for loan losses	12,551		15,643		19,921		14,968		21,642	
Total loans receivable, net	\$ 520,937		\$ 520,369		\$ 664,888		\$ 672,609		\$ 712,837	

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

	Commercial	Other Real Estate Mortgage	Real Estate Construction	Commercial & Construction Total
March 31, 2014	(In thousands)			
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

March 31, 2013

Commercial business	\$71,935	\$-	\$-	\$71,935
Commercial construction	-	-	5,719	5,719
Office buildings	-	86,751	-	86,751
Warehouse/industrial	-	41,124	-	41,124
Retail/shopping centers/strip malls	-	67,472	-	67,472
Assisted living facilities	-	13,146	-	13,146
Single purpose facilities	-	89,198	-	89,198
Land	-	23,404	-	23,404
Multi-family	-	34,302	-	34,302
One-to-four family construction	-	-	3,956	3,956
Total	\$71,935	\$355,397	\$9,675	\$437,007

Commercial Business Lending. At March 31, 2014, the commercial business loan portfolio totaled \$71.6 million or 13.4% of total loans. Commercial business loans are typically secured by business equipment, accounts receivable, inventory or other property. The Company's commercial business loans may be structured as term loans or as lines of credit. Commercial term loans are generally made to finance the purchase of assets and usually have maturities of five years or less. Commercial lines of credit are typically made for the purpose of providing working capital and usually have a term of one year or less. Lines of credit are made at variable rates of interest equal to a negotiated margin above an index rate and term loans are at either a variable or fixed rate. The Company also generally obtains personal guarantees from financially capable parties based on a review of personal financial statements.

Commercial lending involves risks that are different from those associated with residential and commercial real estate lending. Commercial business loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The borrower's cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable or other business assets, the liquidation of collateral in the event of default

is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use, among other things. Accordingly, the repayment of commercial business loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower.

**Other Real Estate Mortgage Lending.** At March 31, 2014, the other real estate lending portfolio totaled \$324.9 million, or 60.9% of total loans. The Company originates other real estate loans including office buildings, warehouse/industrial, retail, assisted living facilities and single-purpose facilities (collectively “commercial real estate loans”); as well as land and multi-family loans primarily located in its market area. At March 31, 2014, owner occupied properties accounted for 32.7% and non-owner occupied properties accounted for 67.3% of the Company’s commercial real estate portfolio.

Commercial real estate and multi-family loans typically have higher loan balances, are more difficult to evaluate and monitor, and involve a higher degree of risk than one-to-four family residential loans. As a result, commercial real estate and multi-family loans are generally priced at a higher rate of interest than residential one-to-four family loans. Often payments on loans secured by commercial properties are dependent on the successful operation and management of the property

securing the loan or business conducted on the property securing the loan; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. The Company seeks to minimize these risks by generally limiting the maximum loan-to-value ratio to 80% and strictly scrutinizing the financial condition of the borrower, the quality of the collateral and the management of the property securing the loan. Loans are secured by first mortgages and often require specified debt service coverage (“DSC”) ratios depending on the characteristics of the collateral. The Company generally imposes a minimum DSC ratio of 1.20 for loans secured by income producing properties. Rates and other terms on such loans generally depend on our assessment of credit risk after considering such factors as the borrower’s financial condition and credit history, loan-to-value ratio, DSC ratio and other factors.

The Company actively pursues commercial real estate loans. New loan originations within the Company’s market area were very competitive in fiscal year 2014 as stabilizing economic conditions resulted in an increase in loan demand from creditworthy borrowers and permitted existing borrowers with nonaccrual loans to return to a current payment status and refinance elsewhere. At March 31, 2014, the Company had eight commercial real estate loans totaling \$8.1 million on non-accrual status compared to six commercial real estate loans totaling \$10.3 million at March 31, 2013. For more information concerning risks related to commercial real estate loans, see Item 1A. “Risk Factors – Our emphasis on commercial real estate lending may expose us to increased lending risks.”

Land acquisition and development loans are included in the other real estate mortgage portfolio balance, and represent loans made to developers for the purpose of acquiring raw land and/or for the subsequent development and sale of residential lots. Such loans typically finance land purchases and infrastructure development of properties (i.e. roads, utilities, etc.) with the aim of making improved lots ready for subsequent sales to consumers or builders for ultimate construction of residential units. The primary source of repayment is generally the cash flow from developer sale of lots or improved parcels of land, secondary sources and personal guarantees, which may provide an additional measure of security for such loans. In recent months, statistics reflect an increase in demand and sales of building lots in the Company’s primary market area resulting in an increase in the number of closed sales for land and building lots as compared to previous years. The Company has been successful in reducing its exposure to land acquisition and development loans and plans to only originate these loans on a limited basis to developers that meet the Company’s underwriting standards. At March 31, 2014, land acquisition and development loans totaled \$16.2 million, or 3.05% of total loans compared to \$23.4 million, or 4.37% of total loans at March 31, 2013. The largest land acquisition and development loan had an outstanding balance at March 31, 2014 of \$3.1 million and was performing according to its original payment terms. At March 31, 2014 all of the land acquisition and development loans were secured by properties located in Washington and Oregon. At March 31, 2014, the Company had one land acquisition and development loan totaling \$800,000 on non-accrual status compared to five land acquisition and development loans totaling \$3.3 million on non-accrual status at March 31, 2013.

Real Estate Construction. The Company originates three types of residential construction loans: (i) speculative construction loans, (ii) custom/presold construction loans and (iii) construction/permanent loans. The Company also originates construction loans for the development of business properties and multi-family dwellings. All of the Company’s real estate construction loans were made on properties located in Washington and Oregon.

The composition of the Company’s construction loan portfolio including undisbursed funds was as follows:

	At March 31,			
	2014		2013	
	Amount (1)	Percent	Amount (1)	Percent
	(Dollars in thousands)			
Speculative construction	\$ 4,771	9.54%	\$ 5,718	35.77%

Commercial/multi-family construction	44,281	88.57	6,495	40.63
Custom/presold construction	698	1.40	2,898	18.13
Construction/permanent	246	0.49	875	5.47
Total	\$ 49,996	100.00%	\$ 15,986	100.00%

(1) Includes undisbursed funds of \$30.5 million and \$6.3 million at March 31, 2014 and 2013, respectively.

The Company has continued to focus on managing the residential construction and commercial construction loan portfolios. At March 31, 2014, the balance of the Company's construction loan portfolio, including loan commitments, was \$50.0 million compared to \$16.0 million at March 31, 2013. The \$34.0 million increase was primarily due to an increase in commercial and multi-family construction loans originated in fiscal year 2014 reflecting the improvement in economic conditions in our market areas. The Company plans to continue to proactively manage its construction loan portfolio in fiscal year 2015 and will continue to originate new construction loans to selected customers.

Speculative construction loans are made to home builders and are termed “speculative” because the home builder does not have, at the time of loan origination, a signed contract with a home buyer who has a commitment for permanent financing with either the Company or another lender for the finished home. The home buyer may be identified either during or after the construction period, with the risk that the builder will have to service the speculative construction loan and finance real estate taxes and other carrying costs of the completed home for a significant time after the completion of construction until a home buyer is identified. The largest speculative construction loan at March 31, 2014 was a loan to finance the construction of 37 townhouses totaling \$2.5 million. This loan is to a single borrower that is secured by properties located in the Company’s market area. At March 31, 2014, the Company had no speculative construction loans on non-accrual.

The composition of speculative construction and land acquisition and development loans by geographical area is as follows:

	Northwest Oregon	Other Oregon	Southwest Washington	Other Washington	Other	Total
March 31, 2014						(In thousands)
Land development	\$2,676	\$1,184	\$12,385	\$-	\$-	\$16,245
Speculative construction	-	-	3,617	-	30	3,647
Total land and speculative construction	\$2,676	\$1,184	\$16,002	\$-	\$30	\$19,892
March 31, 2013						
Land development	\$4,674	\$1,339	\$17,391	\$-	\$-	\$23,404
Speculative construction	-	175	3,011	291	-	3,477
Total land and speculative construction	\$4,674	\$1,514	\$20,402	\$291	\$-	\$26,881

Unlike speculative construction loans, presold construction loans are made for homes that have buyers. Presold construction loans are made to homebuilders who, at the time of construction, have a signed contract with a home buyer who has a commitment for permanent financing for the finished home from the Company or another lender. Custom construction loans are made to the homeowner. Custom/presold construction loans are generally originated for a term of 12 months. At March 31, 2014, and March 31, 2013, the Company had no custom construction loans in its portfolio.

Construction/permanent loans are originated to the homeowner rather than the homebuilder along with a commitment by the Company to originate a permanent loan to the homeowner to repay the construction loan at the completion of construction. The construction phase of a construction/permanent loan generally lasts six to nine months. At the completion of construction, the Company may either originate a fixed rate mortgage loan or an adjustable rate mortgage (“ARM”) loan or use its mortgage brokerage capabilities to obtain permanent financing for the customer with another lender. At completion of construction, the interest rate of the Company-originated fixed rate permanent loan is set at a market rate. For adjustable rate loans, the interest rates adjust on their first adjustment date. See “—Mortgage Brokerage,” and “—Mortgage Loan Servicing.” At March 31, 2014, a single construction/permanent loan totaled \$221,000 and was performing according to its original repayment terms. At March 31, 2013, construction/permanent loans totaled \$479,000 of which the largest had an outstanding balance of \$400,000 and was performing according to its original repayment terms.

The Company provides construction financing for non-residential business properties and multi-family dwellings. At March 31, 2014, such loans totaled \$15.6 million, or 80.17% of total real estate construction loans and 2.93% of total loans. Borrowers may be the business owner/occupier of the building who intends to operate their business from the property upon construction, or non-owner developers. The expected source of repayment of these loans is typically the sale or refinancing of the project upon completion of the construction phase. In certain circumstances, the Company may provide or commit to take-out financing upon construction. Take-out financing is subject to the project meeting specific underwriting guidelines. No assurance can be given that such take-out financing will be available upon project completion. These loans are secured by office buildings, retail rental space, mini storage facilities, assisted living facilities and multi-family dwellings located in the Company's market area. At March 31, 2014, the largest commercial construction loan had a balance of \$3.4 million and was performing according to its original repayment terms. At March 31, 2014, the Company had no commercial construction loans on non-accrual status.

Construction lending affords the Company the opportunity to achieve higher interest rates and fees with shorter terms to maturity than the rates and fees generated by its single-family permanent mortgage lending. Construction lending, however, generally involves a higher degree of risk than single-family permanent mortgage lending because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost of the project, as well as the time needed to sell the property at completion. The nature of these loans is such that they are generally more difficult to evaluate and monitor. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the



completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property or refinance the indebtedness, rather than the ability of the borrower or guarantor to repay principal and interest. If the appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. For additional information concerning the risks related to construction lending, see Item 1A. "Risk Factors – Our real estate construction and land acquisition and development loans are based upon estimates of costs and the value of the completed project."

The Company has originated construction and land acquisition and development loans where a component of the cost of the project was the interest required to service the debt during the construction period of the loan, sometimes known as interest reserves. The Company allows disbursements of this interest component as long as the project is progressing as originally projected and if there has been no deterioration in the financial standing of the borrower or the underlying project. If the Company makes a determination that there is such deterioration, or if the loan becomes nonperforming, the Company halts any disbursement of those funds identified for use in paying interest. In some cases, additional interest reserves may be taken by use of deposited funds or through credit lines secured by separate and additional collateral.

Consumer Lending. Consumer loans totaled \$117.5 million at March 31, 2014, comprised of \$69.8 million of one-to-four family mortgage loans, \$20.3 million of home equity lines of credit, \$2.9 million of land loans to consumers for the future construction of one-to-four family homes and \$24.5 million of other secured and unsecured consumer loans, which primarily consisted of automobile loans.

One-to-four family residences located in the Company's primary market area secure the majority of the residential loans. Underwriting standards require that one-to-four family portfolio loans generally be owner occupied and that loan amounts not exceed 80% (95% with private mortgage insurance) of the lesser of current appraised value or cost of the underlying collateral. Terms typically range from 15 to 30 years. The Company also offers balloon mortgage loans with terms of either five or seven years and originates both fixed rate mortgages and ARMs with repricing based on the one-year constant maturity U.S. Treasury index or other index. At March 31, 2014, the Company had nine residential real estate loans totaling \$2.7 million on non-accrual status compared to 15 loans totaling \$3.1 million at March 31, 2013. All of these loans were secured by properties located in Oregon and Washington.

The Company also made the decision during the third fiscal quarter of 2014 to purchase, 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 on its cash or short-term investments. These indirect automobile loans are originated through a single dealership group located outside the Company's primary market area. The collateral for these loans is comprised of a mix of used automobiles. These loans are purchased with servicing retained by the seller. The Company purchased a total of \$22.1 million of automobile loans during fiscal year 2014. The Company plans to purchase additional automobile loans during fiscal year 2015, subject to these loans meeting our investment criteria, underwriting standards and internal loan concentration limits. At March 31, 2014, none of the purchased automobile loans were on non-accrual status.

The Company originates a variety of installment loans, including loans for debt consolidation and other purposes, automobile loans, boat loans and savings account loans. These consumer loans generally entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as mobile homes, automobiles, boats and recreational vehicles. At March 31, 2014 and 2013, the Company had no installment loans on non-accrual status.

Loan Maturity. The following table sets forth certain information at March 31, 2014 regarding the dollar amount of loans maturing in the Company's portfolio based on their contractual terms to maturity, but does not include potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported as due in one year or less. Loan balances are reported net of deferred fees.

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

	Within 1 Year	1 – 3 Years	After 3 – 5 Years	After 5 – 10 Years	Beyond 10 Years	Total
Commercial and construction:	(In thousands)					
Commercial business	\$ 26,933	\$ 12,256	\$ 14,758	\$ 17,554	\$ 131	\$ 71,632
Other real estate mortgage	45,270	54,392	125,385	96,190	3,644	324,881
Real estate construction	2,531	2,322	39	5,718	8,872	19,482
Total commercial & construction	74,734	68,970	140,182	119,462	12,647	415,995
Consumer:						
Real estate one-to-four family	1,292	5,617	1,151	8,057	76,890	93,007
Other installment	123	797	4,817	18,644	105	24,486
Total consumer	1,415	6,414	5,968	26,701	76,995	117,493
Total loans	\$ 76,149	\$ 75,384	\$ 146,150	\$ 146,163	\$ 89,642	\$ 533,488

The following table sets forth the dollar amount of all loans due after one year from March 31, 2014, which have fixed interest rates and have adjustable interest rates.

	Fixed Rate	Adjustable Rate	Total
	(In thousands)		
Commercial and Construction:			
Commercial business	\$ 28,330	\$ 16,369	\$ 44,699
Other real estate mortgage	87,181	192,430	279,611
Real estate construction	13,514	3,437	16,951
Total commercial and construction	129,025	212,236	341,261
Consumer:			
Real estate one-to-four family	66,548	25,167	91,715
Other installment	23,872	491	24,363
Total consumer	90,420	25,658	116,078
Total loans	\$219,445	\$ 237,894	\$457,339

**Loan Commitments.** The Company issues commitments to originate commercial loans, other real estate mortgage loans, construction loans, residential mortgage loans and other installment loans conditioned upon the occurrence of certain events. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. Commitments to 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. At March 31, 2014, the Company had outstanding commitments to originate loans of \$8.1 million, compared to \$29.7 million at March 31, 2013.

**Mortgage Brokerage.** In addition to originating mortgage loans for retention in its portfolio, the Company employs four commissioned brokers who originate mortgage loans (including construction loans) for various mortgage

companies, as well as for the Company. The loans brokered to mortgage companies are closed in the name of, and funded by the purchasing mortgage company and are not originated as an asset of the Company. In return, the Company receives a fee ranging from 1.5% to 2.0% of the loan amount that it shares with the commissioned broker. Loans brokered to the Company are closed on the Company's books and the commissioned broker receives a portion of the origination fee. During the year ended March 31, 2014, brokered loans totaled \$45.4 million (including \$37.3 million brokered to the Company), compared to \$57.6 million of brokered loans in fiscal year 2013. Gross fees of \$830,000, which includes brokered loan fees and loans sold to Federal Home Loan Mortgage Company ("FHLMC"), were earned for the year ended March 31, 2014. The interest rate environment has a strong influence on the loan volume and amount of fees generated from the mortgage broker activity. In general, during periods of rising interest rates, such as in fiscal 2014, the volume of loans and the amount of loan fees generally decrease as a result of slower mortgage loan demand. Conversely, during periods of falling interest rates, the volume of loans and the amount of loan fees generally increase as a result of the increased mortgage loan demand.

**Mortgage Loan Servicing.** The Company is a qualified servicer for the FHLMC. The Company generally sells fixed-rate residential one-to-four mortgage loans that it originates with maturities of 15 years or more and balloon mortgages to the FHLMC as part of its asset liability strategy. Mortgage loans are sold to FHLMC on a non-recourse basis whereby foreclosure losses are the responsibility of FHLMC and not the Company. The Company's general policy is to close its residential loans on the FHLMC modified loan documents to facilitate future sales to FHLMC. Upon sale, the Company continues to collect payments on the loans, to supervise foreclosure proceedings, and to otherwise service the loans. At March 31, 2014, total loans serviced for others were \$125.2 million, of which \$119.2 million were serviced for the FHLMC.

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

Nonperforming assets were \$21.8 million or 2.64% of total assets at March 31, 2014 compared with \$36.8 million or 4.73% of total assets at March 31, 2013. The Company also had net recoveries totaling \$608,000 during fiscal 2014 compared to net charge-offs totaling \$5.2 million during fiscal 2013. Credit quality challenges have lessened in the past fiscal year and the real estate market in our primary market area has seen improvements. While the Company did not engage in any sub-prime lending programs, the effect on home values, housing markets and construction lending from problems associated with sub-prime and other non-traditional mortgage lending programs contributed substantially to the increased levels of builder and developer delinquencies during recent periods. Although it appears the economic conditions have stabilized, a prolonged weak economy in our market area could result in increases in nonperforming assets, increases in the provision for loan losses and charge-offs in the future.

The Company has continued to focus on managing the residential construction and land acquisition and development portfolios. At March 31, 2014, the Company's residential construction and land acquisition and development loan portfolios were \$3.9 million and \$16.2 million, respectively as compared to \$4.0 million and \$23.4 million at March 31, 2013. The percentage of nonperforming loans in the residential construction and land acquisition and development portfolios was 0.00% and 4.92%, respectively as compared to 4.42% and 13.96%, respectively, a year ago. For the year ended March 31, 2014, the charge-off (recovery) ratio for the residential construction and land development portfolios was 0.18% and (3.84)%, respectively compared to (1.07)% and 2.37%, respectively, for the year ended March 31, 2013.

Nonperforming loans were \$14.1 million or 2.64% of total loans at March 31, 2014 compared with \$21.1 million or 3.94% of total loans at March 31, 2013. Nonperforming loans decreased as a result of the Company's aggressive efforts to work out problem loans, seek full repayment or pursue foreclosure proceedings.

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

	March 31, 2014		March 31, 2013	
	Number of Loans	Balance	Number of Loans	Balance
Commercial business	4	\$ 452	9	\$ 1,349
Commercial real estate	8	8,067	6	10,315
Land	1	800	5	3,267
Multi-family	1	2,014	1	2,968
Real estate construction	-	-	1	175
Consumer	9	2,729	15	3,059
Total	23	\$ 14,062	37	\$ 21,133

All of these loans are to borrowers with properties located in Oregon and Washington. At March 31, 2014, 96.19% of the Company's nonperforming loans, totaling \$13.5 million, were measured for impairment. These loans have been charged down to their estimated fair market value less selling costs or carry a specific reserve to reduce the net carrying value. The reserve associated with these impaired loans totaled \$137,000 at March 31, 2014. At March 31, 2014, the largest single nonperforming loan was a commercial real estate loan totaling \$4.2 million. Charge-offs for this property totaled \$98,000 for fiscal year 2014. This loan was measured for impairment and determined that a

specific reserve was not required since the loan has been charged down to its estimated market value less selling costs.

The balance of nonperforming assets included \$7.7 million in real estate owned (“REO”) at March 31, 2014. The REO was comprised of single-family homes totaling \$876,000, residential building lots totaling \$1.5 million, commercial real estate property totaling \$1.1 million and land development property totaling \$4.2 million. All of the REO properties are located in Oregon and Washington. As a result of the Company’s decision to aggressively price its REO properties for quicker liquidation, the Company had \$2.1 million in write-downs on existing REO properties during fiscal year 2014. Total REO sales were \$12.4 million during fiscal year 2014. Maintenance and operating expenses for these properties totaled \$709,000 during fiscal year 2014. The orderly resolution of nonperforming loans and REO properties remains a priority for management. Because of the uncertain real estate market, no assurance can be given as to the timing of ultimate disposition of such assets or that the selling price will be at or above the carrying value. Further declines in market values in our area could lead to additional valuation adjustments, which would have an adverse effect on our results of operations.

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

	2014	2013	At March 31, 2012	2011	2010
	(In thousands)				
Loans accounted for on a non-accrual basis:					
Commercial business	\$ 452	\$ 1,349	\$ 3,930	\$ 2,871	\$ 6,430
Other real estate mortgage	10,881	16,550	28,562	4,289	15,079
Real estate construction	-	175	7,756	4,206	11,826
Consumer	2,729	3,059	3,915	957	2,676
Total	14,062	21,133	44,163	12,323	36,011
Accruing loans which are contractually past due 90 days or more	-	-	-	-	-
Total nonperforming loans	14,062	21,133	44,163	12,323	36,011
REO	7,703	15,638	18,731	27,590	13,325
Total nonperforming assets	\$ 21,765	\$ 36,771	\$ 62,894	\$ 39,913	\$ 49,336
Foregone interest on non-accrual loans	\$ 949	\$ 1,420	\$ 2,313	\$ 1,950	\$ 2,753

The following table sets forth information regarding the Company's nonperforming assets by loan type and geographical area.

	Northwest Oregon	Other Oregon	Southwest Washington	Other Washington	Total
March 31, 2014	(In thousands)				
Commercial business	\$-	\$-	\$452	\$-	\$452
Commercial real estate	2,194	-	5,873	-	8,067
Multi-family	2,014	-	-	-	2,014
Land	-	800	-	-	800
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
March 31, 2013					
Commercial business	\$94	\$169	\$1,086	\$-	\$1,349
Commercial real estate	2,638	-	7,379	298	10,315
Multi-family	-	2,968	-	-	2,968
Land	-	800	2,467	-	3,267
One-to-four family construction	-	175	-	-	175
Consumer	349	401	1,703	606	3,059
Total nonperforming loans	3,081	4,513	12,635	904	21,133
REO	1,637	5,272	6,548	2,181	15,638
Total nonperforming assets	\$4,718	\$9,785	\$19,183	\$3,085	\$36,771

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 (dollars in thousands).

	March 31, 2014		March 31, 2013	
	Number of Loans	Balance	Number of Loans	Balance
Commercial business	15	\$ 7,967	12	\$ 2,467
Commercial real estate	11	11,771	22	27,328
Land	-	-	3	1,038
Multi-family	1	14	2	879
Total	27	\$ 19,752	39	\$ 31,712



At March 31, 2014, loans delinquent 30 to 89 days were 0.42% of total loans compared to 1.74% at March 31, 2013. At March 31, 2014, the 30 to 89 day delinquency rate in our commercial business loan portfolio was 0.17%. The 30 to 89 day delinquency rate in our commercial real estate (“CRE”) portfolio was 0.07%. CRE loans represent the largest portion of our loan portfolio at 53.89% of total loans and the commercial business loans represent 13.43% of total loans.

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 March 31, 2014, the Company had TDRs totaling \$22.8 million of which \$12.4 million were on accrual status. However, all of the Company's TDRs are paying as agreed except for one of the Company's TDRs that totaled \$270,000 at March 31, 2014, that was restructured during fiscal year 2012 and defaulted subsequent to modification. The related amount of interest income recognized on these TDRs was \$553,000 for the year ended March 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 in order for the restructured loan to be returned to an accrual status. 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.

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.

Asset Classification. The OCC has adopted various regulations regarding problem assets of savings institutions. The regulations require that each insured institution review and classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, OCC examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss (collectively “classified loans”). Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified as loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted.

When the Company classifies problem assets as either substandard or doubtful, we may establish a specific allowance in an amount we deem prudent to address the risk specifically or we may allow the loss to be addressed in the general allowance. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been specifically allocated to particular problem assets. When a problem asset is classified by us as a loss, we are required to charge off the asset in the period in which it is deemed uncollectible.

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

	At or For the Year Ended March 31,	
	2014	2013
	(In thousands)	
Classified loans	\$ 33,814	\$ 52,845
General loss allowances	12,272	14,924
Specific loss allowances	279	719
Net charge-offs (recoveries)	(608 )	5,178

All of the loans on non-accrual status as of March 31, 2014 were categorized as classified loans. Classified loans at March 31, 2014 were comprised of 19 commercial business loans totaling \$8.4 million (the largest of these loans totaling \$3.5 million), 19 commercial real estate loans totaling \$19.8 million (the largest of which was \$4.9 million), two multi-family loans totaling \$2.0 million, one land development loan totaling \$800,000 and nine one-to-four family real estate loans totaling \$2.7 million (the largest of which was \$1.1 million).

**Allowance for Loan Losses.** The Company maintains an allowance for loan losses to provide for probable losses inherent in the loan portfolio. The adequacy of the allowance is evaluated monthly to maintain the allowance at levels sufficient to provide for inherent losses existing at the balance sheet date. The key components to the evaluation are the Company's internal loan review function by its credit administration, which reviews and monitors the risk and quality of the loan portfolio; as well as the Company's external loan reviews and its loan classification systems. Credit officers are expected to monitor their portfolios and make recommendations to change loan grades whenever changes are warranted. Credit administration approves any changes to loan grades and monitors loan grades. For additional discussion of the Company's methodology for assessing the appropriate level of the allowance for loan losses see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies."

At March 31, 2014, the Company had an allowance for loan losses of \$12.6 million, or 2.35% of total loans, compared to \$15.6 million, or 2.92% at March 31, 2013. The decrease in the balance of the allowance for loan losses at March 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 compared to the prior fiscal year, which resulted in the Company recording a recapture of loan losses of \$3.7 million for the year ended March 31, 2014. Nonperforming loans decreased \$7.1 million and 30-89 day delinquent loans also decreased \$7.1 million during the year ended March 31, 2014. Classified loans were \$33.8 million at March 31, 2014 compared to \$52.8 million at March 31, 2013. The decrease in nonperforming and classified assets can be attributed to the Company's efforts to reduce its level of nonperforming and classified assets through write-downs, collections and modifications.

The coverage ratio of allowance for loan losses to nonperforming loans was 89.25% at March 31, 2014 compared to 74.02% at March 31, 2013. This coverage ratio increased from March 31, 2013 primarily as a result of the decrease in nonperforming loans. At March 31, 2014, 18 of the Company's nonperforming loans, totaling \$13.5 million or 96.19%

of total nonperforming loans, were measured for impairment, with all of these loans being considered collateral dependent. The additional reserves associated with these impaired loans totaled \$137,000 at March 31, 2014. The Company's general valuation allowance to non-impaired loans was 2.42% and 2.96% at March 31, 2014 and 2013, respectively.

Management considers the allowance for loan losses to be adequate 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 accounting principles generally accepted in the United States of America ("generally accepted accounting principles" or "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. The following table sets forth an analysis of the Company's allowance for loan losses for the periods indicated.

	Year Ended March 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Balance at beginning of year	\$15,643	\$19,921	\$14,968	\$21,642	\$16,974
Provision for (recapture of) loan losses	(3,700 )	900	29,350	5,075	15,900
Recoveries:					
Commercial and construction					
Commercial business	526	118	29	7	5
Other real estate mortgage	873	1,263	103	31	1
Real estate construction	4	228	3	7	76
Total commercial and construction	1,403	1,609	135	45	82
Consumer					
Real estate one-to-four family	304	138	12	11	7
Other installment	7	1	3	2	-
Total consumer	311	139	15	13	7
Total recoveries	1,714	1,748	150	58	89
Charge-offs:					
Commercial and construction					
Commercial business	340	1,606	2,801	2,371	2,466
Other real estate mortgage	406	3,869	16,895	4,404	3,836
Real estate construction	11	141	2,101	4,329	3,737
Total commercial and construction	757	5,616	21,797	11,104	10,039
Consumer					
Real estate one-to-four family	346	1,238	2,694	682	1,232
Other installment	3	72	56	21	50
Total consumer	349	1,310	2,750	703	1,282
Total charge-offs	1,106	6,926	24,547	11,807	11,321
Net charge-offs (recoveries)	(608 )	5,178	24,397	11,749	11,232
Balance at end of year	\$12,551	\$15,643	\$19,921	\$14,968	\$21,642
Ratio of allowance to total loans outstanding at end of year	2.35	% 2.92	% 2.91	% 2.18	% 2.95
Ratio of net charge-offs (recoveries) to average net loans outstanding during year	(0.12 )	0.86	3.51	1.67	1.48
Ratio of allowance to total nonperforming loans	89.25	74.02	45.11	121.46	60.10

The Company's allowance consists of specific, general and unallocated components. The Company's specific allowance decreased from prior year due to a decrease in the balance of impaired loans during the year. The general component also decreased from prior year due to a decrease in the balance of classified and nonperforming loans and a decrease in charge-offs during the year. The unallocated component has remained elevated compared to historical levels as a result of the continued economic uncertainty.



The following table sets forth the breakdown of the allowance for loan losses by loan category and is based on applying a specific loan loss factor to the outstanding balances of related loan category as of the date of the allocation for the periods indicated.

	2014		2013		At March 31, 2012		2011		2010	
	Amount	Loan Category as a Percent of Total Loans	Amount	Loan Category as a Percent of Total Loans	Amount	Loan Category as a Percent of Total Loans	Amount	Loan Category as a Percent of Total Loans	Amount	Loan Category as a Percent of Total Loans
(Dollars in thousands)										
Commercial and construction:										
Commercial business	\$ 2,409	13.43%	\$ 2,128	13.42%	\$ 2,688	12.74%	\$ 1,822	12.44%	\$ 3,181	14.00%
Other real estate mortgage	5,812	60.90	8,539	66.30	11,626	63.49	8,919	67.19	10,028	62.00
Real estate construction	387	3.65	221	1.81	412	3.76	820	3.98	5,137	10.00
Consumer:										
Real estate one-to-four family	2,190	17.43	2,868	18.12	3,220	19.71	1,294	16.06	1,522	12.00
Other installment	463	4.59	81	0.35	54	0.30	45	0.33	52	0.00
Unallocated	1,290	-	1,806	-	1,921	-	2,068	-	1,722	0.00
Total allowance for loan loss	\$ 12,551	100.00 %	\$ 15,643	100.00 %	\$ 19,921	100.00 %	\$ 14,968	100.00 %	\$ 21,642	100.00 %

## Investment Activities

The Board sets the investment policy of the Company. The Company's investment objectives are: to provide and maintain liquidity within regulatory guidelines; to maintain a balance of high quality, diversified investments to minimize risk; to provide collateral for pledging requirements; to serve as a balance to earnings; and to optimize returns. The policy permits investment in various types of liquid assets permissible under OCC regulation, which includes U.S. Treasury obligations, securities of various federal agencies, "bank qualified" municipal bonds, certain certificates of deposit of insured banks, repurchase agreements, federal funds and mortgage-backed securities ("MBS"), but does not permit investment in non-investment grade bonds. The policy also dictates the criteria for classifying securities into one of three categories: held to maturity, available for sale or trading. At March 31, 2014, no investment securities were held for trading. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies."

At March 31, 2014, the Company's investment portfolio totaled \$102.1 million, primarily consisting of \$21.5 million in U.S. agency securities available-for-sale, \$78.6 million in mortgage-backed securities available-for-sale, and \$1.9 million in trust preferred securities available-for-sale. This compares with a total investment portfolio of \$6.8 million at March 31, 2013, primarily consisting of \$5.0 million in U.S. agency securities available-for-sale, \$431,000 in mortgage-backed securities available-for-sale, and \$1.2 million in trust preferred securities available-for-sale. The increase was due to a decision by the Company to invest additional excess cash into higher yielding investment securities and mortgage-backed securities. The Company primarily purchases agency securities with maturities of five years or less and purchases a combination of mortgage-backed securities backed by government agencies (FHLMC, Fannie Mae ("FNMA"), U.S. Small Business Administration ("SBA") or Ginnie Mae ("GNMA")). At March 31, 2014, the Company owned no privately issued mortgage-backed securities. Our real estate mortgage investment conduits ("REMICs") consist of FHLMC and FNMA securities and our CRE mortgage-backed securities consist of FNMA securities. The Company does not believe that it has any exposure to sub-prime lending in its mortgage-backed securities portfolio. See Note 4 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K for additional information.

The following table sets forth the investment securities portfolio and carrying values at the dates indicated.

	2014		At March 31, 2013		2012	
	Carrying Value	Percent of Portfolio	Carrying Value	Percent of Portfolio	Carrying Value	Percent of Portfolio
(Dollars in thousands)						
Held to maturity (at amortized cost):						
FHLMC mortgage-backed securities	\$ 26	0.03%	\$ 31	0.46%	\$ 69	0.87%
FNMA mortgage-backed securities	75	0.07	94	1.39	102	1.28
Municipal securities	-	-	-	-	493	6.20
	101	0.10	125	1.85	664	8.35
Available for sale (at fair value):						
Agency securities	21,491	21.06	4,978	73.51	4,999	62.87
REMICs	7,150	7.00	237	3.50	329	4.14



FHLMC mortgage-backed securities	25,386	24.87	191	2.82	636	8.00
FNMA mortgage-backed securities	38,950	38.16	3	0.04	9	0.11
SBA mortgage-backed securities	3,932	3.85	-	-	-	-
GNMA mortgage-backed securities	1,077	1.06	-	-	-	-
CRE mortgage-backed securities	2,080	2.04	-	-	-	-
Municipal securities	-	-	-	-	149	1.87
Trust preferred securities	1,903	1.86	1,238	18.28	1,166	14.66
	101,969	99.90	6,647	98.15	7,288	91.65
Total investment securities	\$ 102,070	100.00 <sup>%</sup>	\$ 6,772	100.00 <sup>%</sup>	\$ 7,952	100.00 <sup>%</sup>

The following table sets forth the maturities and weighted average yields in the securities portfolio at March 31, 2014.

	Less Than One Year		One to Five Years		More Than Five to Ten Years		More Than Ten Years	
	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)
	(Dollars in thousands)							
Agency securities	\$ -	-%	\$ 14,099	1.15%	\$ 7,392	1.52%	\$ -	-%
REMICs	-	-	27	5.26	137	4.39	6,986	2.30
FHLMC mortgage-backed securities	4	4.03	-	-	1,567	1.33	23,841	1.99
FNMA mortgage-backed securities	1	7.06	-	-	9,522	1.86	29,502	2.04
SBA mortgage-backed securities	-	-	-	-	-	-	3,932	1.18
GNMA mortgage-backed securities	-	-	-	-	-	-	1,077	1.97
CRE mortgage-backed securities	-	-	-	-	-	-	2,080	3.40
Trust preferred securities	-	-	-	-	-	-	1,903	3.73
Total	\$ 5	4.64%	\$ 14,126	1.16%	\$ 18,618	1.70%	\$ 69,321	1.89%

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

Investment securities available-for-sale, comprised of agency securities and trust preferred securities, were \$23.4 million at March 31, 2014 compared to \$6.2 million at March 31, 2013. Management reviews investment securities quarterly for the presence of other than temporary impairment (“OTTI”), taking into consideration current market conditions, the extent and nature of changes in fair value, issuer rating changes and trends, financial condition of the underlying issuers, current analysts’ evaluations, the Company’s ability and intent to hold investments until a recovery of fair value, which may be maturity, as well as other factors. A \$1.9 million investment security that the Company currently holds is a single collateralized debt obligation (“CDO”) secured by trust preferred securities issued by other bank holding companies. There was no impairment charge of this security for the years ended March 31, 2014, 2013 or 2012. Management believes that it is probable that principal payments will exceed the Company’s recorded investment in this security, that 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 this security before the anticipated recovery of the remaining amortized cost basis.

At March 31, 2014, the market for the Company’s CDO was determined to be inactive in management’s judgment. 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 condition, historical repayment information, as well as the Company's future expectations of the capital markets. Using this information, the Company estimated the fair value of the security at March 31, 2014 to be \$1.9 million.

Additionally, the Company received two independent Level 3 valuation estimates for this security. Those valuation estimates were based on proprietary pricing models utilizing significant unobservable inputs. The Company's estimate of fair value fell within the range of valuations provided, however, the magnitude in the range of fair value estimates further supported the difficulty in estimating the fair value for these types of securities in the current environment. Additionally, the Company believes that some of the assumptions used by the independent parties were overly aggressive and unrealistic. Therefore, the Company believes the use of its internally developed valuation model at March 31, 2014 is reasonable.

For additional information on our Level 3 fair value measurements see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Comparison of Financial Condition at March 31, 2014 and 2013," "Fair Value of Level 3 Assets," and Note 17 of the Notes to the Consolidated Financial Statements contained in Item 8 of the Form 10-K.

## Deposit Activities and Other Sources of Funds

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

Deposit Accounts. The Company attracts deposits from within its primary market area by offering a broad selection of deposit instruments, including demand deposits, negotiable order of withdrawal ("NOW") accounts, money market accounts, regular savings accounts, certificates of deposit and retirement savings plans. The Company has focused on building customer relationships deposits which includes both business and consumer depositors. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of its deposit accounts, the Company considers the rates offered by its competition, profitability to the Company, matching deposit and loan products and customer preferences and concerns.

The following table sets forth the average balances of deposit accounts offered by the Company at the dates indicated.

	2014		Year Ended March 31, 2013		2012	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Non-interest-bearing demand	\$ 120,290	0.00%	\$ 127,048	0.00%	\$ 110,959	0.00%
Interest checking	93,395	0.11	86,091	0.16	96,764	0.29
Regular savings accounts	59,844	0.15	49,394	0.19	40,345	0.31
Money market accounts	224,689	0.21	228,269	0.26	234,325	0.45
Certificates of deposit	174,522	0.75	206,565	0.89	248,696	1.17
Total	\$ 672,740	0.29%	\$ 697,367	0.38%	\$ 731,089	0.60%

Deposit accounts totaled \$690.1 million at March 31, 2014 compared to \$663.8 million at March 31, 2013. The Company did not have any wholesale-brokered deposits at March 31, 2014 and 2013. The Company continues to focus on core deposits and growth around customer relationships as opposed to obtaining deposits through the wholesale markets. The Company has continued to experience increased competition for customer deposits within its market area. Customer branch deposit balances increased \$33.4 million since March 31, 2013. The Company had \$38.3 million, or 5.6% of total deposits, in Certificate of Deposit Account Registry Service ("CDARS") and Insured Cash Sweep ("ICS") deposits, which were gathered from customers within the Company's primary market-area. CDARS and ICS deposits allow customers access to FDIC insurance on deposits exceeding the \$250,000 FDIC insurance limit.

At March 31, 2014 and 2013, deposits from RAMCorp totaled \$4.2 million and \$4.9 million, respectively. These deposits were included in interest bearing and non-interest bearing accounts and represent assets under management by RAMCorp. At March 31, 2014, and 2013, the Company also had \$11.7 million and \$9.9 million, respectively in deposits from public entities located in the States of Washington and Oregon, all of which were fully covered by FDIC insurance or secured by pledged collateral.

The Company is enrolled in an internet deposit listing service. Under this listing service, the Company may post certificates of deposit rates on an internet site where institutional investors have the ability to deposit funds with the Company. At March 31, 2014 and 2013, the Company had \$249,000 and \$5.9 million, respectively, in deposits through this listing service. The decrease was due to maturities that occurred in fiscal year 2014 that the Company elected not to renew which were redeemed by the depositing institution. The Company plans to discontinue the utilization of internet based deposits during fiscal year 2015; 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.

Deposit growth remains a key strategic focus for the Company and our ability to achieve deposit growth, particularly growth in core deposits, is subject to many risk factors including the effects of competitive pricing pressures, changing customer deposit behavior, and increasing or decreasing interest rate environments. Adverse developments with respect to any of these risk factors could limit the Company's ability to attract and retain deposits and could have a material negative impact on the Company's financial condition, results of operations and cash flows.

The following table presents the amount and weighted average rate of certificates of deposit equal to or greater than \$100,000 at March 31, 2014.

Maturity Period	Amount	Weighted Average Rate
	(Dollars in thousands)	
Three months or less	\$ 20,669	0.40 %
Over three through six months	17,270	0.51
Over six through 12 months	25,981	0.36
Over 12 Months	26,252	1.38
Total	\$ 90,172	0.70 %

Borrowings. Deposits are the primary source of funds for the Company's lending and investment activities and for its general business purposes. The Company relies upon advances from the FHLB and borrowings from the Federal Reserve Bank of San Francisco ("FRB") to supplement its supply of lendable funds and to meet deposit withdrawal requirements. Advances from the FHLB and borrowings from the FRB are typically secured by the Bank's commercial loans, commercial real estate loans, first mortgage loans and investment securities. At March 31, 2014, 2013 and 2012, the Bank had no FHLB advances or FRB borrowings.

The FHLB functions as a central reserve bank providing credit for member financial institutions. As a member, the Bank is required to own capital stock in the FHLB and is authorized to apply for advances on the security of such stock and certain of its mortgage loans and other assets (primarily securities which are obligations of, or guaranteed by, the United States) provided certain standards related to creditworthiness have been met. The FHLB determines specific lines of credit for each member institution and the Bank has a line of credit with the FHLB equal to 30% of its total assets to the extent the Bank provides qualifying collateral and holds sufficient FHLB stock. At March 31, 2014, the Bank had an available credit facility of \$240.9 million, which is limited to available pledged collateral.

The Bank also has a borrowing arrangement with the FRB with an available credit facility of \$58.1 million, subject to pledged collateral, as of March 31, 2014.

	Year Ended March 31,		
	2014	2013	2012
	(Dollars in thousands)		
Maximum amounts of FHLB advances outstanding at any month end	\$ -	\$ -	\$ -
Average FHLB advances outstanding	5	3	3
Weighted average rate on FHLB advances	0.52%	0.55%	0.25%
Maximum amounts of FRB borrowings outstanding at any month end	\$ -	\$ -	\$ -
Average FRB borrowings outstanding	-	3	11

Weighted average rate on FRB borrowings	-%	0.75%	0.75%
--	----	-------	-------

At March 31, 2014, the Company had two wholly-owned subsidiary grantor trusts totaling \$22.7 million for the purpose of issuing trust preferred securities and common securities. The trust preferred securities accrue and pay distributions periodically at specified annual rates as provided in each trust agreement. The trusts used the net proceeds from each of the offerings to purchase a like amount of junior subordinated debentures (the "Debentures") of the Company. The Debentures are the sole assets of the trusts. The Company's obligations under the Debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the obligations of the trusts. The trust preferred securities are mandatorily redeemable upon maturity of the Debentures, or upon earlier redemption as provided in the indentures. The Company has the right to redeem the Debentures in whole or in part on or after specific dates, at a redemption price specified in the indentures governing the Debentures plus any accrued but unpaid interest to the redemption date. The Company also has the right to defer the payment of interest on each of the Debentures for a period not to exceed 20 consecutive quarters, provided that the deferral period does not extend beyond the stated maturity. During such deferral period, distributions on the corresponding trust preferred securities will also be deferred and the Company may not pay cash dividends to the holders of shares of our common stock. 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 Debentures and distributions on the corresponding trust preferred securities are also being deferred. The Company continued with the interest deferral through March 31, 2014. As of March 31, 2014, the Company had deferred a total of \$3.7 million of interest

payments. 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 March 31, 2014 and 2013 is included in prepaid expenses and other assets in the Consolidated Balance Sheets included in the Consolidated Financial Statements contained in Item 8 of the Form 10-K. See also Note 11 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

#### Taxation

For details regarding the Company's taxes, see Item 8 – "Financial Statements and Supplementary Data - Note 12 of the Notes to the Consolidated Financial Statements."

#### Personnel

As of March 31, 2014, the Company had 219 full-time equivalent employees, none of whom are represented by a collective bargaining unit. The Company believes its relationship with its employees is good.

#### Corporate Information

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

#### Subsidiary Activities

Under OCC regulations, the Bank is authorized to invest up to 3% of its assets in subsidiary corporations, with amounts in excess of 2% only if primarily for community purposes. At March 31, 2014, the Bank's investments of \$1.1 million in Riverview Services, Inc. ("Riverview Services"), its wholly owned subsidiary, and \$4.0 million in RAMCorp, a 90% owned subsidiary, were within these limitations.

Riverview Services acts as a trustee for deeds of trust on mortgage loans granted by the Bank, and receives a reconveyance fee for each deed of trust. Riverview Services had net income of \$21,000 for the fiscal year ended March 31, 2014 and total assets of \$1.1 million at that date. Riverview Services' operations are included in the Consolidated Financial Statements of the Company contained in Item 8 of the Form 10-K.

RAMCorp is an asset management company providing trust, estate planning and investment management services. RAMCorp commenced business in December 1998 and had net income of \$609,000 for the fiscal year ended March 31, 2014 and total assets of \$4.6 million at that date. RAMCorp earns fees on the management of assets held in fiduciary or agency capacity. At March 31, 2014, total assets under management totaled \$359.7 million. RAMCorp's operations are included in the Consolidated Financial Statements of the Company contained in Item 8 of this Form 10-K.

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

Name	Age (1)	Position
------	---------	----------



Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

Patrick Sheaffer	74	Chairman of the Board and Chief Executive Officer
R o n a l d A . Wysaske	61	President and Chief Operating Officer
K e v i n J . Lycklama	36	Executive Vice President and Chief Financial Officer
Daniel D. Cox	36	Executive Vice President and Chief Credit Officer
R i c h a r d S . Michalek	69	Executive Vice President and Chief Lending Officer
John A. Karas	65	Executive Vice President
J a m e s D . Baldovin	55	Executive Vice President Retail Banking
Kim J. Capeloto	52	Executive Vice President Marketing and Operations

(1) At March 31, 2014

Patrick Sheaffer is Chairman of the Board and Chief Executive Officer of the Company and Chief Executive Officer of the Bank, positions he has held since February 2004. Prior to February 2004, Mr. Sheaffer served as Chairman of the Board, President and Chief Executive Officer of the Company since its inception in 1997. He became Chairman of the Board of the Bank in 1993. Mr. Sheaffer joined the Bank in 1963. He is responsible for leadership and management of the Company. Mr. Sheaffer is active in numerous professional and civic organizations.

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

Kevin J. Lycklama is Executive Vice President and Chief Financial Officer of the Company, positions he has held since February 2008. Prior to February 2008, Mr. Lycklama served as Vice President and Controller of the Bank since 2006. Prior to joining Riverview, Mr. Lycklama spent five years with a local public accounting firm advancing to the level of audit manager. He is responsible for accounting, SEC reporting as well as treasury functions for the Bank and the Company. He holds a Bachelor of Arts degree from Washington State University, is a graduate of the Pacific Coast Banking School and is a certified public accountant.

Daniel D. Cox is Executive Vice President and Chief Credit Officer and is responsible for credit administration related to its commercial, mortgage and consumer loan activities. Mr. Cox joined Riverview in August 2002 and spent five years as a commercial lender and progressed through the credit administration function, most recently serving as Senior Vice President of Credit Administration. He holds a Bachelor of Arts degree from Washington State University and was an Honor Roll graduate of the Pacific Coast Banking School. Mr. Cox is an active mentor in our local schools and was the Past Treasurer and Endowment Chair for the Washougal Schools Foundation and Past Board Member of Camas-Washougal Chamber of Commerce.

Richard S. Michalek is Executive Vice President and Chief Lending Officer of the Company, a position he has held since June 2012. Mr. Michalek is responsible for all of the Bank's lending division related to commercial, real estate and consumer loan activities. Prior to joining Riverview in 2001, Mr. Michalek spent seven years at Northwest National Bank where he was a commercial loan officer and later managed the retail banking loan center. Mr. Michalek also spent 19 years at Seattle First National Bank/Bank of America in various capacities. Mr. Michalek holds a Bachelor of Arts and M.B.A. from Seattle University and is a graduate of the Pacific Coast Banking School.

John A. Karas is Executive Vice President of the Bank and also serves as Chairman of the Board, President and CEO of its subsidiary, RAMCorp. Mr. Karas has been employed by the Company since 1999 and has over 30 years of trust experience. He is familiar with all phases of the trust business and his experience includes trust administration, trust legal counsel, investments and real estate. Mr. Karas received his B.A. from Willamette University and his Juris Doctor degree from Lewis & Clark Law School's Northwestern School of Law. He is a member of the Oregon, Multnomah County and American Bar Associations and is a Certified Trust and Financial Advisor. Mr. Karas is also active in numerous civic organizations.

James D. Baldovin is Executive Vice President of Retail Banking and is responsible for the Bank's branch banking network, customer service, sales and community development. Mr. Baldovin has been employed by the Bank since January 2003 and has over 30 years of banking expertise in developing and leading sales and service cultures. He holds a Bachelor of Arts degree in economics from Linfield College and is a graduate of the Pacific Coast Banking School.

Kim J. Capeloto is Executive Vice President of Marketing, Operations and Information Technology. Mr. Capeloto has been employed by the Bank since September 2010. Mr. Capeloto has over 30 years of banking experience serving as regional manager for Union Bank of California and Wells Fargo Bank directing small business and personal banking activities. Prior to joining the Bank, Mr. Capeloto held the position of President and Chief Executive Officer of the Greater Vancouver Chamber of Commerce. Mr. Capeloto is active in numerous professional and civic organizations.

## REGULATION

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

Legislation is introduced from time to time in the United States Congress (“Congress”) that may affect the Company’s and Bank’s operations. In addition, the regulations governing the Company and the Bank may be amended from time to time by the OCC, the FDIC, the Federal Reserve Board or the SEC, as appropriate. Any such legislation or regulatory changes in the future could have an adverse effect on our operations and financial condition. We cannot predict whether any such changes may occur.

### General

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

### Federal Regulation of Savings Institutions

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

In January 2009, the Bank entered into a Memorandum of Understanding (“MOU”) with the Office of Thrift Supervision (“OTS”), at the time the Bank’s primary regulator. Following the transfer of the responsibilities and authority of the OTS to the OCC on July 21, 2011, the MOU was enforced by the OCC. On January 25, 2012, the Bank entered into a formal written agreement (“Agreement”) with the OCC. Upon effectiveness of the Agreement, the MOU was terminated by the OCC. The Agreement remained in effect and enforceable until modified, waived or terminated in writing by the OCC. On April 2, 2014, the Bank was notified that the Agreement was rescinded.

The Bank has also separately agreed to the OCC establishing higher minimum capital ratios for the Bank, specifically that the Bank maintain a Tier 1 capital (leverage) ratio of not less than 9.00% and a total risk-based capital ratio of not less than 12.00%. As of March 31, 2014, the Bank's Tier 1 capital (leverage) ratio was 10.71% and its total risk-based capital ratio was 16.66%.

All savings institutions are required to pay assessments to the OCC to fund the agency's operations. The general assessments, paid on a semi-annual basis, are determined based on the savings institution's total assets, including consolidated subsidiaries. The Bank's OCC assessment for the fiscal year ended March 31, 2014 was \$365,000.

The Bank's general permissible lending limit for loans-to-one-borrower is equal to the greater of \$500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At March 31, 2014, the Bank's lending limit under this restriction was \$14.5 million and, at that date, the Bank's largest lending relationship with one borrower was \$11.0 million, which consisted of one commercial construction loan which was performing according to its original payment terms at March 31, 2014.

The OCC's oversight of the Bank includes reviewing its compliance with the customer privacy requirements imposed by the Gramm-Leach-Bliley Act of 1999 ("GLBA") and the anti-money laundering provisions of the USA Patriot Act. The GLBA privacy requirements place limitations on the sharing of consumer financial information with unaffiliated third parties. They also require each financial institution offering financial products or services to retail customers to provide such customers with its privacy policy and with the opportunity to "opt out" of the sharing of their personal information with unaffiliated third parties. The USA Patriot Act significantly expands the responsibilities of financial institutions in preventing the use of the United States financial system to fund terrorist activities. Its anti-money laundering provisions require financial institutions operating in the United States to develop anti-money laundering compliance programs and due diligence policies and controls to ensure the detection and reporting of money laundering. These compliance programs are intended to supplement existing compliance requirements under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations.

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

**Current Capital Requirements.** Federally insured savings institutions, such as the Bank, are required by the OCC to maintain minimum levels of regulatory capital. These minimum capital standards include: a 1.5% tangible capital to total assets ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards, discussed below, also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS system) and, together with the risk-based capital standard itself, a 4% tier 1 risk-based capital standard. The OCC regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires federal savings institutions to maintain tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OCC capital regulation based on the risks believed inherent in the type of asset. Tier 1 (core) capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The OCC also has authority to establish individual minimum capital requirements for financial institutions. In January 2012, the Bank agreed to the OCC establishing minimum capital ratios for the Bank in excess of the minimum capital

standards required under OCC's Prompt Corrective Actions. Specifically, the Bank must achieve and maintain tier 1 (core) leverage ratio of 9% and total risk-based capital ratio of 12%. As of March 31, 2014, the Bank's Tier 1 capital (leverage) ratio was 10.71% and its total risk-based capital ratio was 16.66%. For additional information, see Note 15 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

**New Capital Rules.** On July 9, 2013, the OCC and the other federal bank regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of \$500 million or more and top-tier savings and loan holding companies.

Effective in 2015 (with some changes generally transitioned into full effectiveness over two to four years), the Bank will be subject to new capital requirements adopted by the FDIC. These new requirements create a new required ratio for common equity Tier 1 ("CET1") capital, increase the leverage and Tier 1 capital ratios, change the risk-weights of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios and change what qualifies as capital for purposes of meeting these various capital requirements. Beginning in 2016, failure to maintain the required capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

When these new requirements become effective in 2015, the Bank's leverage ratio of 4% of adjusted total assets and total capital ratio of 8% of risk-weighted assets will remain the same; however, the Tier 1 capital ratio requirement will increase from 4.0% to 6.5% of risk-weighted assets. In addition, the Bank will have to meet the new CET1 capital ratio of 4.5% of risk-weighted assets, with CET1 consisting of qualifying Tier 1 capital less all capital components that are not considered common equity.

For all of these capital requirements, there are a number of changes in what constitutes regulatory capital, some of which are subject to a two-year transition period. These changes include the phasing-out of certain instruments as qualifying capital. The Bank does not have any of these instruments. Under the new requirements for total capital, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital.

Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock will be deducted from capital, subject to a two-year transition period. In addition, Tier 1 capital will include accumulated other comprehensive income, which includes all unrealized gains and losses on available-for-sale debt and equity securities, subject to a two-year transition period. Because of their asset size, the Bank has the one-time option of deciding in the first quarter of 2015 whether to permanently opt out of the inclusion of accumulated other comprehensive income in their capital calculations. The Bank is considering whether to take advantage of this opt-out to reduce the impact of market volatility on its regulatory capital levels.

The new requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisitions, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (up from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital; and increased risk-weights (0% to 600%) for equity exposures.

In addition to the minimum CET1, Tier 1 and total capital ratios, the Bank will have to maintain a capital conservation buffer consisting of additional CET1 capital equal to 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement is being phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% in January 2019.

The OCC's prompt corrective action standards will change when these new capital ratios become effective. Under the new standards, in order to be considered well-capitalized, the Bank would have to have a CET1 ratio of 6.5% (new), a Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

Prompt Corrective Action. The OCC is required to take certain supervisory actions against undercapitalized savings institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, an



institution that has a ratio of total capital to risk-weighted assets of less than 8%, a ratio of tier 1 (core) capital to risk-weighted assets of less than 4%, or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." An institution that has a total risk-based capital ratio less than 6%, a tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and an institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OCC is required to appoint a receiver or conservator for a savings institution that is "critically undercapitalized." OCC regulations also require that a capital restoration plan be filed with the OCC within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. "Significantly undercapitalized" and "critically undercapitalized" institutions are subject

to more extensive mandatory regulatory actions. The OCC also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. At March 31, 2014, the Bank's capital ratios met the "well capitalized" standards. For additional information see "-Capital Requirements."

In addition, the final capital rule adopted in July 2013 revises the prompt corrective action categories to incorporate the revised minimum capital requirements of that rule when it becomes effective. The OCC's prompt corrective action standards will change when these new capital ratios become effective. Under the new standards, in order to be considered well-capitalized, the Bank would have to have a common equity Tier 1 ratio of 6.5% (new), a Tier 1 risk-based capital ratio of 8.0% (increased from 6.0%), a total risk-based capital ratio of 10.0% (unchanged), and a Tier 1 leverage ratio of 5.0% (unchanged).

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

As a member, the Bank is required to purchase and maintain stock in the FHLB. At March 31, 2014, the Bank had \$6.7 million in FHLB stock, which was in compliance with this requirement. In 2009, the FHLB reported a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency ("FHFA"), its primary regulator as of December 31, 2008, and stated that it would suspend future dividends and the repurchase and redemption of outstanding common stock. In September 2012, the FHLB announced that the FHFA now considers it to be adequately capitalized. Dividends on, or repurchases of, the FHLB stock continue to require consent of the FHFA. The FHFA subsequently approved the repurchase of portions of FHLB stock and during fiscal year 2014, the FHLB had repurchased \$410,000 of its stock, at par, from the Bank. The FHLB announced in July 2013 that, based on its second quarter 2013 financial results, their Board of Directors had declared a \$0.025 per share cash dividend. For the year ended March 31, 2014, the Bank received \$5,000 of dividends on FHLB stock.

The FHLBs have continued and continue to contribute to low- and moderately-priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have in the past affected adversely the level of FHLB dividends paid and could continue to do so in the future if dividend payments resume. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Bank's FHLB stock may result in a corresponding reduction in the Bank's capital.

Federal Deposit Insurance Corporation. The DIF of the FDIC insures deposit accounts in the Bank up to \$250,000 per separately insured depositor. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. The Bank's deposit insurance premiums for the year ended March 31, 2014 were \$1.5 million.

The Dodd-Frank Act requires the FDIC's deposit insurance assessments to be based on assets instead of deposits. In 2011, the FDIC published a final rule under the Dodd-Frank Act, which specify that the assessment base for a bank is equal to its total average consolidated assets less average tangible capital. The FDIC assessment rates range from approximately 2.5 basis points to 45 basis points, depending on applicable adjustments for unsecured debt issued by an institution and brokered deposits (and to further adjustment for institutions that hold unsecured debt of other

FDIC-insured institutions), until such time as the FDIC's reserve ratio equals 1.15%. Once the FDIC's reserve ratio reaches 1.15% and the reserve ratio for the immediately prior assessment period is less than 2.0%, the applicable assessment rates may range from 1.5 basis points to 40 basis points (subject to adjustments as described above). If the reserve ratio for the prior assessment period is equal to, or greater than 2.0% and less than 2.5%, the assessment rates may range from one basis point to 38 basis points and if the prior assessment period is greater than 2.5%, the assessment rates may range from a half basis point to 35 basis points (in each case subject to adjustments as described above). No institution may pay a dividend if it is in default on its federal deposit insurance assessment.

As insurer, the FDIC is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the DIF. The FDIC also has the authority to take enforcement actions against banks and savings associations. The FDIC may terminate the deposit insurance of any insured depository institution if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is not aware of any existing circumstances which would result in termination of the deposit insurance of the Bank.

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

Any institution that fails to meet the QTL test must either become a national bank or be prohibited from making new investments or engaging in activities not allowed for both a national bank and a savings association, from establishing a new branch unless such branch is allowable for a national bank, and from paying dividends unless allowable for a national bank; unless within one year it meets the test, and thereafter remains a qualified thrift lender. Any holding company of an institution that fails the test and does not re-qualify within a year must become a bank holding company. If such an institution has not converted to a bank within three years after it failed the test, it must divest of any investments and cease any activities not permissible for both a national bank and a savings association. The Company does not believe that any of its investments or operating activities would be prohibited under such circumstances. As of March 31, 2014, the Bank maintained 90.95% of its portfolio assets in qualified thrift investments and therefore met the QTL test.

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

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

**Activities of Associations and their Subsidiaries.** When a savings institution establishes or acquires a subsidiary or elects to conduct any new activity through a subsidiary that the association controls, the savings institution must file a notice or application with the FDIC and the OCC at least 30 days in advance and receive regulatory approval or

non-objection. Savings institutions also must conduct the activities of subsidiaries in accordance with existing regulations and orders.

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

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

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

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

In connection with its deposit-taking, lending and other activities, the Bank is subject to a number of federal laws designed to protect consumers and promote lending to various sectors of the economy and population. The Dodd-Frank Act created a new Consumer Financial Protection Bureau ("CFPB") as an independent bureau of the Federal Reserve. The CFPB assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations and has authority to impose new requirements. However, institutions of less than \$10 billion in assets, such as the Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their primary regulators.

The CFPB issues regulations and standards under these federal consumer protection laws, which include the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act and the Real Estate Settlement Procedures Act. Through its rulemaking authority, the CFPB has promulgated several proposed and final regulations under these laws that will affect the Bank's consumer businesses. Among these regulatory initiatives, are final regulations setting "ability to repay" and "qualified mortgage" standards for residential mortgage loans and establishing new mortgage loan servicing and loan originator compensation standards. The Bank is evaluating these recent CFPB regulations and proposals and devotes substantial compliance, legal and operational business resources to ensure

compliance with these consumer protection standards. In addition, the OCC has enacted customer privacy regulations that limit the ability of the Bank to disclose nonpublic consumer information to non-affiliated third parties. The regulations require disclosure of privacy policies and allow consumers to prevent certain personal information from being shared with non-affiliated parties.

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

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

Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts, primarily checking, NOW and Super NOW checking accounts. At March 31, 2014, the Bank was in compliance with these reserve requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy any liquidity requirements that may be imposed by the OCC.

Commercial Real Estate Lending Concentrations. The federal banking agencies have issued guidance on sound risk management practices for concentrations in commercial real estate lending. The particular focus is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be sensitive to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is not to limit a bank's commercial real estate lending but to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance directs the FDIC and other bank regulatory agencies to focus their supervisory resources on institutions that may have significant commercial real estate loan concentration risk. A bank that has experienced rapid growth in commercial real estate lending, has notable exposure to a specific type of commercial real estate loan, or is approaching or exceeding the following supervisory criteria may be identified for further supervisory analysis with respect to real estate concentration risk:

- Total reported loans for construction, land development and other land represent 100% or more of the bank's capital;  
or
- Total commercial real estate loans (as defined in the guidance) represent 300% or more of the bank's total capital or the outstanding balance of the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months.

The guidance provides that the strength of an institution's lending and risk management practices with respect to such concentrations will be taken into account in supervisory guidance on evaluation of capital adequacy.

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



contaminated property that they hold as collateral for a loan. In addition, we may be subject to environmental liabilities with respect to real estate properties that are placed in foreclosure that we subsequently take title to.

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

**Other Consumer Protection Laws and Regulations.** The Bank is subject to a broad array of federal and state consumer protection laws and regulations that govern almost every aspect of its business relationships with consumers. While the list set forth below is not exhaustive, these include the Gramm-Leach-Bliley Financial Services Modernization Act of 1999, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“Patriot Act”), the Truth-in-Lending Act, the Truth in Savings Act, the Electronic Fund Transfers Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Right to Financial Privacy Act, the Home Ownership and Equity Protection Act, the Fair Credit Billing Act, the Homeowners Protection Act, the Check Clearing for the 21st Century Act, laws governing flood insurance, laws governing consumer protections in connection with the sale of insurance, federal and state laws prohibiting unfair and deceptive business practices, and various regulations that implement some or all of the foregoing. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages, and the loss of certain contractual rights.

#### Savings and Loan Holding Company Regulations

**General.** The Company is a unitary savings and loan holding company subject to regulatory oversight of the Federal Reserve. Accordingly, the Company is required to register and file reports with the Federal Reserve and is subject to regulation and examination by the Federal Reserve. In addition, the Federal Reserve has enforcement authority over the Company and its non-savings institution subsidiaries, which also permits the Federal Reserve to restrict or prohibit activities that are determined to present a serious risk to the subsidiary savings institution.

In October 2009, the Company also entered into a separate MOU agreement with the OTS, at the time the Company’s primary regulator. In May 2013, the Company entered into a written agreement with the Federal Reserve to replace its MOU agreement. For additional information regarding the specifics of the written agreement, see Item 1A, “Risk Factors – We are required to comply with the terms of a written agreement with the Federal Reserve and lack of compliance could result in monetary penalties and /or additional regulatory actions.”

The Company believes it is currently in compliance with all of the requirements of the written agreement with the Federal Reserve through its normal business operations. The written agreement will remain in effect until modified or terminated by the Federal Reserve.

Under the Dodd-Frank Act, the federal banking regulators must require any company that controls an FDIC-insured depository institution to serve as a source of strength for the institution, with the ability to provide financial assistance if the institution suffers financial distress. In addition to the written agreement, these and other Federal Reserve Board policies may restrict the Company’s ability to pay dividends.

**Capital Requirements.** The Company is not subject to any minimum regulatory capital requirements. However, beginning in 2015, it will be subject to regulatory capital requirements adopted by the Federal Reserve, which generally are the same as the new capital requirements for the Bank. These new capital requirements include provisions that might limit the ability of the Company to pay dividends to its stockholders or repurchase its shares. For a description of the new capital regulations, see “-Federal Regulation of Savings Institutions--New Capital Rules”.

**Activities Restrictions.** The GLBA provides that no company may acquire control of a savings association after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies under the law or for multiple savings and loan holding companies as described below. Further, the GLBA specifies that, subject to a grandfather provision, existing savings and loan holding companies may only engage in such activities. The Company qualifies for the grandfathering and is therefore not restricted in terms of its activities. Upon any non-supervisory

acquisition by the Company of another savings association as a separate subsidiary, the Company would become a multiple savings and loan holding company and would be limited to activities permitted multiple holding companies by Federal Reserve regulation. Federal Reserve has issued an interpretation concluding that multiple savings holding companies may also engage in activities permitted for financial holding companies, including lending, trust services, insurance activities and underwriting, investment banking and real estate investments.

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

The Federal Reserve may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions; (i) the approval of interstate supervisory acquisitions by savings and loan holding companies and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Acquisition of the Company. Any company, except a bank holding company, that acquires control of a savings association or savings and loan holding company becomes a “savings and loan holding company” subject to registration, examination and regulation by the Federal Reserve and must obtain the prior approval of the Federal Reserve under the Savings and Loan Holding Company Act before obtaining control of a savings association or savings and loan holding company. A bank holding company must obtain the prior approval of the Federal Reserve under the Bank Holding Company Act before obtaining control of a savings association or savings and loan holding company and remains subject to regulation under the Bank Holding Company Act. The term “company” includes corporations, partnerships, associations, and certain trusts and other entities. “Control” of a savings association or savings and loan holding company is deemed to exist if a company has voting control, directly or indirectly of more than 25% of any class of the savings association’s voting stock or controls in any manner the election of a majority of the directors of the savings association or savings and loan holding company, and may be presumed under other circumstances, including, but not limited to, holding 10% or more of a class of voting securities if the institution has a class of registered securities, as Riverview Bancorp, Inc. has. Control may be direct or indirect and may occur through acting in concert with one or more other persons. In addition, a savings and loan holding company must obtain Federal Reserve approval prior to acquiring voting control of more than 5% of any class of voting stock of another savings association or another savings association holding company. A similar provision limiting the acquisition by a bank holding company of 5% or more of a class of voting stock of any company is included in the Bank Holding Company Act.

Accordingly, the prior approval of the Federal Reserve Board would be required:

- before any savings and loan holding company or bank holding company could acquire 5% or more of the common stock of Riverview Bancorp, Inc.; and
- before any other company could acquire 25% or more of the common stock of Riverview Bancorp, Inc., and may be required for an acquisition of as little as 10% of such stock.

In addition, persons that are not companies are subject to the same or similar definitions of control with respect to savings and loan holding companies and savings associations and requirements for prior regulatory approval by the Federal Reserve in the case of control of a savings and loan holding company or by the OCC in the case of control of a savings association not obtained through control of a holding company of such savings association.

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

Act of 1934, including the Company.

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

Dividends and Stock Repurchases. The Federal Reserve has issued a policy statement on the payment of cash dividends applicable to savings and loan holding companies, which expresses its view that although there are no specific regulations restricting dividend payments other than state corporate laws, a savings and loan holding company must maintain an adequate capital position and generally should not pay cash dividends unless the company's net income for the past year is sufficient to fully fund the cash dividends and that the prospective rate of earnings appears consistent with the company's capital needs, asset quality, and overall financial condition. The Federal Reserve policy statement also indicates that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. In addition, a savings and loan holding company is required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding twelve months, is equal to 10% or more of its consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order or any condition imposed by, or written agreement with, the Federal Reserve. Pursuant to the written agreement with the Federal Reserve, we are required to provide notice to and obtain written approval from the Federal Reserve prior to declaring or paying any dividend or redeeming any capital stock. See Item 1A, "Risk Factors – We are required to comply with the terms of a written agreement with the Federal Reserve and lack of compliance could result in monetary penalties and /or additional regulatory actions." We did not repurchase, pay dividends or redeem any shares of common stock during the 2014 fiscal year.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010: On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank-Act imposes new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions and implements new capital regulations that the Company will become subject to and that are discussed above under "- Regulation and Supervision of the Bank - New Capital Rules." In addition, among other changes, the Dodd-Frank Act requires public companies, such as the Company, to (i) provide their shareholders with a non-binding vote (a) at least once every three years on the compensation paid to executive officers and (b) at least once every six years on whether they should have a "say on pay" vote every one, two or three years; (ii) have a separate, non-binding shareholder vote regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments; (iii) provide disclosure in annual proxy materials concerning the relationship between the executive compensation paid and the financial performance of the issuer; and (iv) amend Item 402 of Regulation S-K to require companies to disclose the ratio of the Chief Executive Officer's annual total compensation to the median annual total compensation of all other employees. For certain of these changes, the implementing regulations have not been promulgated, so the full impact of the Dodd-Frank Act on public companies cannot be determined at this time.

## Item 1A. Risk Factors

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

We are required to comply with the terms of a written agreement with the Federal Reserve and lack of compliance could result in monetary penalties and /or additional regulatory actions.

In 2009, Riverview Bancorp, Inc. and the Bank each entered into separate MOU agreements with the OTS, at the time their primary regulator. The Bank's agreement was subsequently assumed by the OCC and replaced by another formal agreement with the OCC in 2012. In April 2014 the OCC terminated this agreement in light of the improvement in the Bank's financial condition and risk profile.

In May 2013, the Company entered into a written agreement with the Federal Reserve to replace its MOU agreement. This written agreement requires the Company to: (a) provide notice to and obtain written approval from the Federal Reserve prior to the Company declaring a dividend or redeeming any capital stock or receiving dividends or other payments from the Bank; (b) provide notice to and obtain written approval from the Federal Reserve prior to the Company incurring, issuing, renewing or repurchasing any new debt; (c) provide notice to and obtain written approval from the Federal Reserve prior to the Company making payments on its Debentures; (d) submit written statement of its planned sources and uses of cash for debt service, operating expenses, and other purposes ("Cash Flow Projection") beginning for calendar year 2013 and submit progress reports related to its Cash Flow Projections and financial results.

Under the written agreement with the Federal Reserve, the Company also agreed to take any required action to ensure compliance by the Bank with Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W and to not appoint any new Riverview director or senior executive officer or change the responsibilities of any current senior executive officers, without the prior written non-objection of the Federal Reserve. We are also limited and/or prohibited, in certain circumstances, in our ability to enter into contracts to pay and to make golden parachute severance and indemnification payments. The written agreement will remain in effect until stayed, modified, terminated or suspended by the Federal Reserve. If either the Company or Bank is found not in compliance with the written agreement, it could be subject to various remedies, including among others, the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to direct an increase in capital, to restrict the growth of the Company or the Bank, to remove officers and/or directors, and to assess civil monetary penalties. Management of the Company and the Bank have taken action and implemented programs to comply with the requirements of the written agreement and compliance will be determined by the Federal Reserve. Management believes that the Company and the Bank have complied in all material respects with the provisions of the written agreement. The Federal Reserve may determine, however, in its sole discretion that the issues raised by the written agreement have not been addressed satisfactorily, or that any current or past actions, violations or deficiencies could be the subject of further regulatory enforcement actions. Such enforcement actions could involve penalties or limitations on the business of the Bank or the Company and negatively affect our ability to implement our business plan, pay dividends on our common stock and the value of our common stock as well as our financial condition and results of operations.

The Bank has also separately agreed to the OCC establishing higher minimum capital ratios for the Bank, specifically that the Bank maintain a Tier 1 capital (leverage) ratio of not less than 9.00% and a total risk-based capital ratio of not

less than 12.00%. As of March 31, 2014, the Bank's Tier 1 capital (leverage) ratio was 10.71% and its total risk-based capital ratio was 16.66%.



Our business may continue to be adversely affected by downturns in the national and the regional economies on which we depend.

Substantially all of our loans are to businesses and individuals in the states of Washington and Oregon. A continuing decline in the economies of the seven counties, in which we operate, including the Portland, Oregon metropolitan area, which we consider to be our primary market area, could have a material adverse effect on our business, financial condition, results of operations and prospects. In particular, Washington and Oregon have experienced substantial home price declines and increased foreclosures and have experienced above average unemployment rates.

A further deterioration in economic conditions in the market areas we serve could result in the following consequences, any of which could have a materially adverse impact on our business, financial condition and results of operations:

- loan delinquencies, problem assets and foreclosures may increase;
- the slowing of sales of foreclosed assets;
- demand for our products and services may decline;
- collateral for loans made may decline further in value, in turn reducing customers' borrowing power, reducing the value of assets and collateral associated with existing loans; and
- the amount of our low-cost or non-interest bearing deposits may decrease.

A return of recessionary conditions could result in increases in our level of nonperforming loans and/or reduce demand for our products and services, which could have adverse effect on our results of operations.

The ongoing debate in Congress regarding the national debt ceiling and federal budget deficit and concerns over the United States' credit rating (which was downgraded by Standard & Poor's), the European sovereign debt crisis, the overall weakness in the economy and continued high unemployment in the United States, among other economic indicators, have contributed to increased volatility in the capital markets and diminished expectations for the economy.

A return of recessionary conditions and/or continued negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Further declines in real estate values and sales volumes and continued high unemployment levels may result in higher than expected loan delinquencies and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity, and financial condition.

Furthermore, the Board of Governors of the Federal Reserve System, in an attempt to help the overall economy, has, among other things, kept interest rates low through its targeted federal funds rate and the purchase of mortgage-backed securities. If the Federal Reserve increases the federal funds rate, or more rapidly curtails purchases of mortgage-backed securities, overall interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

Our real estate construction and land acquisition or development loans expose us to risk.

We make real estate construction loans to individuals and builders, primarily for the construction of residential properties. We originate these loans whether or not the collateral property underlying the loan is under contract for sale. At March 31, 2014, construction loans totaled \$19.5 million, or 3.7% of our total loan portfolio, of which \$3.9 million were for residential real estate projects. Land loans, which are loans made with land as security, totaled \$16.2 million, or 3.0%, of our total loan portfolio at March 31, 2014. Land loans include raw land and land acquisition and development loans. In our primary market area, the housing market has slowed, with weaker demand for housing, higher inventory levels and longer marketing times. A further downturn in housing, or the real estate market, could increase loan delinquencies, defaults and foreclosures, and significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure.

In general, construction, and land lending involves additional risks because of the inherent difficulty in estimating a property's value both before and at completion of the project as well as the estimated cost of the project. Construction costs may exceed original estimates as a result of increased materials, labor or other costs. In addition, because of current

uncertainties in the residential real estate market, property values have become more difficult to determine than they have historically been. Construction loans and land acquisition and development loans often involve the disbursement of funds with repayment dependent, in part, on the success of the project and the ability of the borrower to sell or lease the property or refinance the indebtedness, rather than the ability of the borrower or guarantor to repay principal and interest. These loans are also generally more difficult to monitor. Loans on land under development or held for future construction as well as lot loans made to individuals for the future construction of a residence also pose additional risk because of the lack of income being produced by the property and the potential illiquid nature of the collateral. These risks can be significantly impacted by supply and demand conditions. In addition, speculative construction loans to a builder are often associated with homes that are not pre-sold, and thus pose a greater potential risk than construction loans to individuals on their personal residences. At March 31, 2014, speculative construction and land development loans totaled \$19.9 million, of which, \$800,000, or 4.0%, were nonperforming.

Our emphasis on commercial real estate lending may expose us to increased lending risks.

Our current business strategy is focused on the expansion of commercial real estate lending. This type of lending activity, while potentially more profitable than single-family residential lending, is generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. Collateral evaluation and financial statement analysis in these types of loans requires a more detailed analysis at the time of loan underwriting and on an ongoing basis. Many of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss.

At March 31, 2014, we had \$308.6 million of commercial and multi-family real estate mortgage loans, representing 57.9% of our total loan portfolio. These loans typically involve higher principal amounts than other types of loans, and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower's project is reduced as a result of leases not being obtained or renewed, the borrower's ability to repay the loan may be impaired. Commercial and multi-family mortgage loans also expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial and multi-family real estate loans are not fully amortizing and contain large balloon payments upon maturity. Balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment. At March 31, 2014, \$10.1 million or 3.3% of our commercial real estate and multi-family loans were nonperforming.

A secondary market for most types of commercial real estate and multi-family loans is not readily liquid, so we have less opportunity to mitigate credit risk by selling part or all of our interest in these loans. As a result of these characteristics, if we foreclose on a commercial or multi-family real estate loan, our holding period for the collateral typically is longer than for one-to-four family residential mortgage loans because there are fewer potential purchasers of the collateral. Accordingly, charge-offs on commercial and multi-family real estate loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios.

Our business may be adversely affected by credit risk associated with residential property.

At March 31, 2014, \$93.0 million, or 17.4% of our total loan portfolio, was secured by one- to four-family mortgage loans and home equity loans. This type of lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. The decline in residential real estate values as a result of the downturn in our market area has reduced the value of the real estate collateral securing these types of loans and increased the risk that we would incur losses if

borrowers default on their loans.

Many of our one- to four-family loans and home equity lines of credit are secured by liens on mortgage properties in which the borrowers have little or no equity because of these declines in home values in our primary market area. Residential loans with high combined loan-to-value ratios will be more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, they may be unable to repay their loans in full from the sale. Further, the majority of our home equity lines of credit consist of second mortgage loans. For those home equity lines secured by a second mortgage, it is unlikely that we will be successful in recovering all or a portion of our loan proceeds in the event of default unless we are prepared to repay the first mortgage loan and such repayment and the costs associated with a foreclosure are justified by the

value of the property. For these reasons, we could experience higher rates of delinquencies, defaults and losses. At March 31, 2014, \$2.7 million or 2.9% of our residential real estate loans were nonperforming.

Repayment of our commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value.

At March 31, 2014, we had \$71.6 million or 13.4% of total loans in commercial business loans. Commercial lending involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. Our commercial loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The borrowers' cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Although commercial loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use, among other things. Accordingly, the repayment of commercial loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower. At March 31, 2014, \$452,000 or 0.6% of our commercial business loans were nonperforming.

Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio.

Lending money is a substantial part of our business and each loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

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

We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, which we believe is appropriate to provide for probable losses in our loan portfolio. The amount of this allowance is determined by management through periodic reviews and consideration of several factors, including, but not limited to:

- our general reserve, based on our historical default and loss experience and certain macroeconomic factors based on management's expectations of future events;
- our specific reserve, based on our evaluation of nonperforming loans and their underlying collateral; and
- an unallocated reserve to provide for other credit losses inherent in our portfolio that may not have been contemplated in the other loss factors.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and the loss and delinquency experience, and evaluate economic conditions and make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for additions to our allowance through an increase in the provision for loan losses. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. Our allowance for loan losses was 2.35% of gross loans held for investment and 89.25% of nonperforming loans at March 31, 2014. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. If charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the provision for loan losses will result in a decrease in net income and may have a material adverse effect on our financial condition, results of operations and our capital.

If our investments in real estate are not properly valued or sufficiently reserved to cover actual losses, or if we are required to increase our valuation reserves, our earnings could be reduced.

We obtain updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed upon and the property taken in as REO, and at certain other times during the assets holding period. Our net book value (“NBV”) in the loan at the time of foreclosure and thereafter is compared to the updated market value of the foreclosed property less estimated selling costs (fair value). A charge-off is recorded for any excess in the asset’s NBV over its fair value. If our valuation process is incorrect, the fair value of our investments in real estate may not be sufficient to recover our NBV in such assets, resulting in the need for additional charge-offs. Additional material charge-offs to our investments in real estate could have a material adverse effect on our financial condition and results of operations. In addition, bank regulators periodically review our REO and may require us to recognize further charge-offs. Any increase in our charge-offs may have a material adverse effect on our financial condition and results of operations.

Our securities portfolio may be negatively impacted by fluctuations in market value and interest rates.

Our securities portfolio may be impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and/or earnings. Fluctuations in market value may be caused by changes in market interest rates, lower market prices for securities and limited investor demand. Our securities portfolio is evaluated for other-than-temporary impairment. If this evaluation shows impairment to the actual or projected cash flows associated with one or more securities, a potential loss to earnings may occur. Changes in interest rates can also have an adverse effect on our financial condition, as our available-for-sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. We increase or decrease our shareholders' equity by the amount of change in the estimated fair value of the available-for-sale securities, net of taxes. There can be no assurance that the declines in market value will not result in other-than-temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

Changes in interest rates may reduce our net interest income, and may result in higher defaults in a rising rate environment.

Our profitability is dependent to a large extent upon net interest income, which is the difference, or spread, between the interest earned on loans, securities and other interest-earning assets and the interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. In a changing interest rate environment, we may not be able to manage this risk effectively. Changes in interest rates also can affect: (1) our ability to originate and/or sell loans; (2) the fair value of our financial assets and liabilities, which could negatively impact shareholders' equity, and our ability to realize gains from the sale of such assets; (3) our ability to obtain and retain deposits in competition with other available investment alternatives; (4) the ability of our borrowers to repay adjustable or variable rate loans; and (5) the average duration of our mortgage backed securities portfolio and other interest-earning assets.

If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. As a result of the relatively low interest rate environment, an increasing percentage of our deposits have been comprised of short-term certificates of deposit and other deposits yielding no or a relatively low rate of interest. At March 31, 2014, we had \$112.9 million in certificates of deposit that mature within one year and \$128.6 million in non-interest bearing demand deposits. We would incur a higher cost of funds to retain these deposits in a rising interest rate environment. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more

quickly than the interest rates paid on deposits and other borrowings. In addition, a substantial amount of our mortgage loans and home equity lines of credit have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment.

Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations. Further, a prolonged period of exceptionally low market interest rates, such as we are currently experiencing, and the Board of Governors of the Federal Reserve System has indicated it intends to maintain, limits our ability to lower our interest expense, while the average yield on our interest-earning assets may continue to decrease as our loans reprice or are originated at these low market rates. Accordingly, our net interest income may continue to decrease, which may have an adverse effect on our profitability. Also, our interest rate risk modeling techniques and



assumptions likely may not fully predict or capture the impact of actual interest rate changes on our balance sheet or projected operating results.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition, growth and prospects.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. We rely on customer deposits and, as needed, advances from the FHLB of Seattle ("FHLB"), borrowings from the Federal Reserve Bank of San Francisco ("FRB") and other borrowings to fund our operations. Although we have historically been able to replace maturing deposits and advances if desired, we may not be able to replace such funds in the future if, among other things, our financial condition, the financial condition of the FHLB or FRB, or market conditions change. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the Washington or Oregon markets where our loans are concentrated or adverse regulatory action against us

Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Although we consider our sources of funds adequate for our liquidity needs, we may seek additional debt in the future to achieve our long-term business objectives. Additional borrowings, if sought, may not be available to us or, if available, may not be available on reasonable terms. If additional financing sources are unavailable, or are not available on reasonable terms, our financial condition, results of operations, growth and future prospects could be materially adversely affected. In addition, the Company may not incur additional debt without the prior written non-objective of the Federal Reserve. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. See also "-We have deferred payments of interest on our outstanding junior subordinated debentures and as a result we are prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock."

An increase in interest rates, change in the programs offered by governmental sponsored entities ("GSE") or our ability to qualify for such programs may reduce our mortgage revenues, which would negatively impact our non-interest income.

Our mortgage banking operations provide a significant portion of our non-interest income. We generate mortgage revenues primarily from gains on the sale of single-family mortgage loans pursuant to programs currently offered by Fannie Mae, Freddie Mac, Ginnie Mae and non-GSE investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Any future changes in these programs, our eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, materially adversely affect our results of operations. Mortgage banking is generally considered a volatile source of income because it depends largely on the level of loan volume which, in turn, depends largely on prevailing market interest rates. In a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage banking revenues and a corresponding decrease in non-interest income. In addition, our results of operations are affected by the amount of non-interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations. In addition, although we sell loans into the secondary market without recourse, we are required to give customary representations and warranties about the loans to the buyers. If we breach those representations and warranties, the buyers may require us to repurchase the loans and we may incur a loss on the repurchase.

A general decline in economic conditions may adversely affect the fees generated by our asset management company.

To the extent our asset management clients and their assets become adversely affected by weak economic and stock market conditions, they may choose to withdraw the amount of assets managed by us and the value of their assets may decline. Our asset management revenues are based on the value of the assets we manage. If our clients withdraw assets or the value of their assets decline, the revenues generated by Riverview Asset Management Corp. will be adversely affected.

Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed or the cost of that capital may be very high.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our capital resources will satisfy our capital requirements for the foreseeable future, including the heightened capital requirements with the OCC. Nonetheless, we may elect to raise additional capital to support our business or to finance acquisitions, if any, or we may otherwise elect or be required to raise additional capital. Should we elect to raise additional capital, we may seek to do so through the issuance of, among other things, our common stock or preferred stock. The issuance of additional shares of common stock or convertible securities to new stockholders would be dilutive to our current stockholders.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial condition and performance. Accordingly, we cannot make assurances that we will be able to raise additional capital if needed on terms that are acceptable to us, or at all. If we cannot raise additional capital when needed, our operations could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, if we are unable to raise additional capital when required by the Federal Reserve or the OCC, we may be subject to additional adverse regulatory action. See "--We are required to comply with the terms of a written agreement with the Federal Reserve and lack of compliance could result in monetary penalties and /or additional regulatory actions."

We may experience future goodwill impairment, which could reduce our earnings.

We performed our annual goodwill impairment test during the quarter-ended December 31, 2013, but no impairment was identified. Our assessment of the fair value of goodwill is based on an evaluation of current purchase transactions, discounted cash flows from forecasted earnings, our current market capitalization, and a valuation of our assets. Our evaluation of the fair value of goodwill involves a substantial amount of judgment. If our judgment was incorrect and an impairment of goodwill was deemed to exist, we would be required to write down our assets resulting in a charge to earnings, which could materially adversely affect our results of operations, perhaps materially; however, it would have no impact on our liquidity, operations or regulatory capital.

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations, increase our costs of operations and decrease our efficiency.

The Bank is subject to extensive examination, supervision and comprehensive regulation by the OCC and the FDIC, and Riverview is subject to examination and supervision by the Federal Reserve. The OCC, FDIC and the Federal Reserve govern the activities in which we may engage, primarily for the protection of depositors and the Deposit Insurance Fund. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on an institution's operations, reclassify assets, determine the adequacy of an institution's allowance for loan losses and determine the level of deposit insurance premiums assessed. The significant federal and state banking regulations that affect us are described in this report under the heading "Item 1. Business-Regulation." These regulations, along with the currently existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, restrict mergers and acquisitions, investments, access to capital, the location of banking offices, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent accounting firms. These changes could materially impact, potentially even retroactively, how we report our financial condition and results of our

operations as could our interpretation of those changes.

Additionally, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) has significantly changed the bank regulatory structure and has affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting and implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on us. For example, a provision of the Dodd-Frank Act eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense.

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. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments. The legislation also directs the Federal Reserve to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau (“CFPB”) with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Financial institutions such as the Bank with \$10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulator.

In 2013, the CFPB issued several final regulations and changes to certain consumer protections under existing laws. These final rules, most of the provisions of which (including the qualified mortgage rule) became effective January 10, 2014, generally prohibit creditors from extending mortgage loans without regard for the consumer’s ability to repay and add restrictions and requirements to mortgage origination and servicing practices. In addition, these rules limit prepayment penalties and require the creditor to retain evidence of compliance with the ability-to-repay requirement for three years. Compliance with these rules will likely increase our overall regulatory compliance costs and may require changes to our underwriting practices with respect to mortgage loans. Moreover, these rules may adversely affect the volume of mortgage loans that we underwrite and may subject us to increased potential liabilities related to such residential loan origination activities.

Effective December 10, 2013, pursuant to the Dodd-Frank Act, federal banking and securities regulators issued final rules to implement Section 619 of the Dodd-Frank Act (the Volcker Rule). Generally, subject to a transition period and certain exceptions, the Volcker Rule restricts insured depository institutions and their affiliated companies from engaging in short-term proprietary trading of certain securities, investing in funds with collateral comprised of less than 100% loans that are not registered with the Securities and Exchange Commission (“SEC”) and from engaging in hedging activities that do not hedge a specific identified risk. After the transition period, the Volcker Rule prohibitions and restrictions will apply to banking entities unless an exception applies. We are analyzing the impact of the Volcker Rule on our investment portfolio and possible changes to our investment strategies, which could negatively affect our earnings.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense. Any additional changes in our regulation and oversight, whether in the form of new laws, rules or regulations, could make compliance more difficult or expensive or otherwise materially adversely affect our business, financial condition or prospects.

Any other additional changes in our regulation and oversight, whether in the form of new laws, rules or regulations, could likewise make compliance more difficult or expensive or otherwise materially adversely affect our business, financial condition or prospects.

The short-term and long-term impact of the changing regulatory capital requirements and anticipated new capital rules is uncertain.

On July 9, 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of \$500 million or more and top-tier savings and loan holding companies. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4.0% to 6.0% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more

than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain “available-for-sale” securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-in or opt-out is exercised. The rule limits a banking organization’s capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule becomes effective for the Company on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

The application of these more stringent capital requirements could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy, and could limit our ability to make distributions, including paying out dividends or buying back shares. Specifically, beginning in 2016, the Company’s ability to pay dividends will be limited if does not have the capital conservation buffer required by the new capital rules, which may limit our ability to pay dividends to stockholders. See “Federal Regulation of Savings Institutions—New Capital Rules.”

Our litigation related costs might continue to increase.

Riverview Community Bank is subject to a variety of legal proceedings that have arisen in the ordinary course of Riverview Community Bank’s business. In the current economic environment Riverview Community Bank’s involvement in litigation has increased significantly, primarily as a result of defaulted borrowers asserting claims in order to defeat or delay foreclosure proceedings. Riverview Community Bank believes that it has meritorious defenses in legal actions where it has been named as a defendant and is vigorously defending these suits. Although management, based on discussion with litigation counsel, believes that such proceedings will not have a material adverse effect on the financial condition or operations of Riverview Community Bank, there can be no assurance that a resolution of any such legal matters will not result in significant liability to Riverview Community Bank nor have a material adverse impact on its financial condition and results of operations or Riverview Community Bank’s ability to meet applicable regulatory requirements. Moreover, the expenses of pending legal proceedings will adversely affect Riverview Community Bank’s results of operations until they are resolved. There can be no assurance that Riverview Community Bank’s loan workout and other activities will not expose Riverview Community Bank to additional legal actions, including lender liability or environmental claims.

Our investment in Federal Home Loan Bank stock may become impaired.

As a member, the Bank is required to purchase and maintain stock in the FHLB. At March 31, 2014, the Bank had \$6.7 million in FHLB stock, which was in compliance with this requirement. In 2009, the FHLB reported a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency (“FHFA”), its primary regulator as of December 31, 2008, and stated that it would suspend future dividends and the repurchase and redemption of outstanding common stock. In September 2012, the FHLB announced that the FHFA now considers it to be adequately capitalized. Dividends on, or repurchases of, the FHLB stock continue to require consent of the FHFA. The FHFA subsequently approved the repurchase of portions of FHLB stock and during fiscal year 2014, the FHLB had repurchased \$410,000 of its stock, at par, from the Bank. The FHLB announced in July 2013 that, based on its second quarter 2013 financial results, their Board of Directors had declared a \$0.025 per share cash dividend. For the

year ended March 31, 2014, the Bank received \$5,000 of dividends on FHLB stock. Based on the above, we have not recorded an impairment on our investment in FHLB stock. Deterioration in the FHLB's financial position may, however, result in future impairment in the value of those securities. We will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of our investment.

Competition with other financial institutions could adversely affect our profitability.

The banking and financial services industry is very competitive. Legal and regulatory developments have made it easier for new and sometimes unregulated competitors to compete with us. Consolidation among financial service providers has resulted in fewer very large national and regional banking and financial institutions holding a large accumulation of assets. These institutions generally have significantly greater resources, a wider geographic presence or greater accessibility. Our competitors sometimes are also able to offer more services, more favorable pricing or greater customer convenience than we



do. In addition, our competition has grown from new banks and other financial services providers that target our existing or potential customers. As consolidation continues, we expect additional institutions to try to exploit our market.

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

We rely heavily on the proper functioning of our technology.

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

We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology including our internet banking services and data processing systems. Any failure or interruption of these services or systems or breaches in security of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and/or loan origination systems. If any of our third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to locate alternative sources of such services, and we cannot assure that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality, as found in our existing systems, without the need to expend substantial resources, if at all. Any of these circumstances could have an adverse effect on our business.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.

Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the community banking industry where the Bank conducts its business. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of key executives, including our President, and certain other employees. In addition, our success has been and continues to be highly dependent upon the services of our directors, many of whom are at or nearing retirement age, and we may not be able to identify and attract suitable candidates to replace such directors.

Our exposure to operational risks may adversely affect us.

Similar to other financial institutions, we are exposed to many types of operational risk, including reputational risk,

legal and compliance risk, the risk of fraud or theft by employees or outsiders, the risk that sensitive customer or Company data is compromised, unauthorized transactions by employees or operational errors, including clerical or record-keeping errors. Nationally, reported incidents of fraud and other financial crimes have increased. While we have policies and procedures designed to prevent such losses, there can be no assurance that such losses will not occur. If any of these risks occur, it could result in material adverse consequences for us.

Regulatory and contractual restrictions may limit or prevent us from paying dividends on our common stock.

Holders of our common stock are only entitled to receive such dividends as our Board may declare out of funds legally available for such payments. Further, holders of our common stock are subject to the prior dividend rights of any holders of our preferred stock at any time outstanding or depositary shares representing such preferred stock then outstanding. Although we have historically declared cash dividends on our common stock, we are not required to do so. We suspended our cash dividend during the quarter ended December 31, 2008 and we do not know if we will resume the payment of

dividends in the future. Furthermore, the Company elected to defer regularly scheduled interest payments on its junior subordinated debentures during the first quarter of fiscal 2011, which in turn, restricts the Company's ability to pay dividends on its common stock. See "-We have deferred payments of interest on our outstanding junior subordinated debentures and as a result we are prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock."

In addition, under the terms of the Company's written agreement with the Federal Reserve, the payment of dividends by the Company to the shareholders is subject to the prior written agreement of the Federal Reserve. As an entity separate and distinct from the Bank, the Company derives substantially all of its revenue in the form of dividends from the Bank. Accordingly, the Company is and will be dependent upon dividends from the Bank to satisfy its cash needs and to pay dividends on its common stock and service the interest payments on its trust preferred security. The inability to receive dividends from the Bank could have a material adverse effect on the Company's business, financial condition and results of operations. The Bank's ability to pay dividends is subject to its ability to earn net income and, to meet certain regulatory requirements. The Bank does not currently meet these regulatory requirements. As discussed above, under the written agreement with the Federal Reserve, Riverview may not receive any such dividends without the approval of the Federal Reserve, which also limits the Company's ability to pay dividends on its common stock. The lack of a cash dividend could adversely affect the market price of our common stock.

We have deferred payments of interest on our outstanding junior subordinated debentures and as a result we are prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock.

In the first quarter of fiscal 2011, we elected to defer regularly scheduled interest payments on our outstanding \$22.7 million aggregate principal amount of junior subordinated debentures issued in connection with the sale of trust preferred securities through statutory business trusts. There are currently two separate series of these junior subordinated debentures outstanding, each series having been issued under a separate indenture and with a separate guarantee from Riverview. During the deferral period, interest will continue to accrue on the junior subordinated debentures at the stated coupon rate, including the deferred interest, and Riverview may not, among other things, pay cash dividends on or, with limited exceptions, repurchase its common stock nor make any payment on outstanding debt obligations that rank equally with or are junior to the junior subordinated debentures.

We may, without notice to or consent from the holders of our common stock, issue additional series of junior subordinated debentures in the future with terms similar to those of our existing junior subordinated debentures or enter into other financing agreements that limit our ability to purchase or to pay dividends or distributions on our capital stock, including our common stock. As a result of our deferral of interest on the junior subordinated debentures, it is likely that we will not be able to raise funds through the offering of debt securities until we become current on these obligations or these obligations are restructured.

This deferral may also adversely affect our ability to obtain debt financing on commercially reasonable terms, or at all. In addition, if Riverview defers interest payments on the junior subordinated debentures for more than 20 consecutive quarters, it would be in default under the indentures governing these debentures and the amount due under such agreements would be immediately due and payable. Events of default under the indenture generally consist of our failure to pay interest on the junior subordinated debt securities under certain circumstances, our failure to pay any principal of or premium on such junior subordinated debt securities when due, our failure to comply with certain covenants under the indenture, and certain events of bankruptcy, insolvency or liquidation relating to us or the Bank.

As long as we defer interest payments, we will likely have greater difficulty in obtaining financing and have fewer financing sources. In addition, the market value of our common stock may be adversely affected.



Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The executive offices of the Company are located in downtown Vancouver, Washington at 900 Washington Street. The Company's operational center is also located in Vancouver, Washington (both offices are leased). At March 31, 2014, the Bank had 10 offices located in Clark County, Washington (five of which are leased), one office in Cowlitz County, Washington, two offices in Klickitat County, Washington, and one office in Skamania County, Washington. The Bank also had three offices in Multnomah County, Oregon (one of which is leased), and one office in Marion County, Oregon.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

## PART II

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

At March 31, 2014, there were 22,471,890 shares of Company common stock issued and outstanding, 755 stockholders of record and an estimated 2,375 holders in nominee or “street name.” Under Washington law, the Company is prohibited from paying a dividend if, as a result of its payment, the Company would be unable to pay its debts as they become due in the normal course of business, or if the Company’s total liabilities would exceed its total assets. The principal source of funds for the Company is dividend payments from the Bank. OCC regulations require the Bank to give the OCC 30 days advance notice of any proposed declaration of dividends to the Company, and the OCC has the authority under its supervisory powers to prohibit the payment of dividends to the Company. The OCC imposes certain limitations on the payment of dividends from the Bank to the Company, which utilize a three-tiered approach that permits various levels of distributions based primarily upon a savings association’s capital level. In addition, the Company may not declare or pay a cash dividend on its capital stock if the effect thereof would be to reduce the regulatory capital of the Bank below the amount required for the liquidation account established pursuant to the Bank’s conversion from the mutual stock form of organization. See Item 1. “Business-Regulation-Federal Regulation of Savings Associations-Limitations on Capital Distributions.” and Note 1 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

The common stock of the Company is traded on the Nasdaq Global Select Market under the symbol “RVSB”. The following table sets forth the high and low trading prices, as reported by Nasdaq, and cash dividends paid for each quarter during 2014 and 2013 fiscal years. At March 31, 2014, there were 21 market makers in the Company’s common stock as reported by the Nasdaq Global Select Market.

Fiscal Year Ended March 31, 2014	High	Low	Cash Dividends Declared
Quarter ended March 31, 2014	\$ 3.49	\$ 2.82	\$ -
Quarter ended December 31, 2013	2.98	2.51	-
Quarter ended September 30, 2013	2.96	2.42	-
Quarter ended June 30, 2013	2.67	2.27	-

Fiscal Year Ended March 31, 2013	High	Low	Cash Dividends Declared
Quarter ended March 31, 2013	\$ 2.76	\$ 1.66	\$ -
Quarter ended December 31, 2012	1.99	1.41	-
Quarter ended September 30, 2012	1.49	1.24	-
Quarter ended June 30, 2012	2.29	1.08	-

## Stock Repurchase

Pursuant to the written agreement with the Federal Reserve, the Company is required to provide notice to and obtain written approval from the Federal Reserve prior to declaring or paying any dividend or redeeming any capital stock. In addition, the Company elected to defer regularly scheduled interest payments on its junior subordinated debentures during the first quarter of fiscal 2011, which in turn, restricts the Company's ability to pay dividends on its common stock. See Item 1A, "Risk Factors – We are required to comply with the terms of a written agreement with the Federal Reserve and lack of compliance could result in monetary penalties and /or additional regulatory actions" and "-- We have deferred payments of interest on our outstanding junior subordinated debentures and as a result we are prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock."

The Company did not declare any dividends or repurchase any shares of common stock for the years ended March 31, 2014, 2013 or 2012.

#### Securities for Equity Compensation Plans

Please refer to Item 12 in this Form 10-K for a listing of securities authorized for issuance under equity compensation plans.

	3/31/09*	3/31/10	3/31/11	3/31/12	3/31/13	3/31/14
Riverview Bancorp, Inc.	100.00	59.43	78.55	58.40	68.22	88.51
S & P 500	100.00	149.77	173.20	187.99	214.24	261.06
NASDAQ Bank	100.00	130.24	129.55	132.74	152.64	199.25

\*\$100 invested on 3/31/09 in stock or index-including reinvestment of dividends

Copyright © 2014, Standard & Poor's, a division of The McGraw-Hill Companies, Inc. All rights reserved.  
[www.researchdatagroup.com/S&P.htm](http://www.researchdatagroup.com/S&P.htm)



## Item 6. Selected Financial Data

The following condensed consolidated statements of operations and financial condition and selected performance ratios as of March 31, 2014, 2013, 2012, 2011 and 2010 and for the years then ended have been derived from the Company's audited Consolidated Financial Statements. The information below is qualified in its entirety by the detailed information included elsewhere herein and should be read along with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8. "Financial Statement and Supplementary Data" included in this Form 10-K.

	2014	2013	At March 31, 2012	2011	2010
	(In thousands)				
<b>FINANCIAL CONDITION DATA:</b>					
Total assets	\$ 824,521	\$ 777,003	\$ 855,998	\$ 859,263	\$ 837,953
Loans receivable, net	520,937	520,369	664,888	672,609	712,837
Loans held for sale	1,024	831	480	173	255
Mortgage-backed securities held to maturity	101	125	171	190	259
Mortgage-backed securities available for sale	78,575	431	974	1,777	2,828
Cash and interest-bearing deposits	68,577	115,415	46,393	51,752	13,587
Investment securities held to maturity	-	-	493	506	517
Investment securities available for sale	23,394	6,216	6,314	6,320	6,802
Deposit accounts	690,066	663,806	744,455	716,530	688,048
FHLB advances	-	-	-	-	23,000
Federal Reserve Bank advances	-	-	-	-	10,000
Shareholders' equity	97,978	78,442	75,607	106,944	83,934
			Year Ended March 31,		
	2014	2013	2012	2011	2010
	(Dollars in thousands, except per share data)				
<b>OPERATING DATA:</b>					
Interest income	\$ 26,804	\$ 32,932	\$ 39,532	\$ 43,214	\$ 46,262
Interest expense	2,568	3,485	5,865	8,052	11,376
Net interest income	24,236	29,447	33,667	35,162	34,886
Provision for (recapture of) loan losses	(3,700)	900	29,350	5,075	15,900
Net interest income after provision for (recapture of) loan losses	27,936	28,547	4,317	30,087	18,986
Gains (losses) from sale of loans, securities and real estate owned	422	1,002	(396)	779	1,032
Impairment on investment security	-	-	-	-	(1,003)
Other non-interest income	7,945	7,871	7,223	7,110	7,237
Non-interest expense	31,961	34,758	34,423	31,496	34,973

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

Income (loss) before income taxes	4,342	2,662	(23,279)	6,480	(8,721)
Provision (benefit) for income taxes	(15,081)	29	8,378	2,165	(3,277)
Net income (loss)	\$ 19,423	\$ 2,633	\$ (31,657)	\$ 4,315	\$ (5,444)

Earnings (loss) per share:

Basic	\$ 0.87	\$ 0.12	\$ (1.42)	\$ 0.24	\$ (0.51)
Diluted	0.87	0.12	(1.42)	0.24	(0.51)
Dividends per share	-	-	-	-	-

At or For the Year Ended March 31,

	2014	2013	2012	2011	2010
--	------	------	------	------	------

## KEY FINANCIAL RATIOS:

## Performance Ratios:

Return (loss) on average assets	2.46	%	0.33	%	(3.64	)%	0.51	%	(0.62	)%
Return (loss) on average equity	23.73		3.41		(30.19	)	4.29		(6.00	)
Dividend payout ratio (1)	-		-		-		-		-	
Interest rate spread	3.29		3.95		4.17		4.46		4.19	
Net interest margin	3.37		4.06		4.33		4.64		4.39	
Non-interest expense to average assets	4.05		4.30		3.95		3.70		3.97	
Efficiency ratio (2)	98.03		90.70		85.01		73.16		82.97	
Average equity to average assets	10.37		9.55		12.04		11.84		10.29	

## Asset Quality Ratios:

Allowance for loan losses to total net loans at end of period	2.35		2.92		2.91		2.18		2.95	
Allowance for loan losses to nonperforming loans	89.25		74.02		45.11		121.46		60.10	
Net charge-offs (recoveries) to average outstanding loans during the period	(0.12	)	0.86		3.51		1.67		1.48	
Ratio of nonperforming assets to total assets	2.64		4.73		7.35		4.65		5.89	
Ratio of nonperforming loans to total loans	2.64		3.94		6.45		1.79		4.90	

## Capital Ratios:

Total capital to risk-weighted assets	16.66		15.29		12.11		14.61		12.11	
Tier 1 capital to risk-weighted assets	15.40		14.02		10.84		13.35		10.85	
Leverage ratio	10.71		9.99		8.76		11.24		9.84	

(1) Dividends per share divided by earnings per share

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

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

### General

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the Consolidated Financial Statements and accompanying Notes thereto contained in Item 8 of this Form 10-K and the other sections contained in this Form 10-K. This section contains certain financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America ("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

The Company has established various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of the Company's Consolidated Financial Statements. The Company has identified policies that due to judgments, estimates and assumptions inherent in those policies are critical to an understanding of the Company's Consolidated Financial Statements. These policies relate to the methodology for the determination of the allowance for loan losses, the valuation of investment securities, the valuation of real estate owned ("REO") and foreclosed assets, goodwill valuation and the calculation of income taxes. These policies and the judgments, estimates and assumptions are described in greater detail in subsequent sections of Management's Discussions and Analysis contained herein and in the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K. In particular, Note 1 of the Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies," describes generally the Company's accounting policies. Management believes that the judgments, estimates and assumptions used in the preparation of the Company's Consolidated Financial Statements are appropriate given the factual circumstances at the time. However, given the sensitivity of the Company's Consolidated Financial Statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in the Company's results of operations or financial condition.

### Allowance for Loan Losses

The allowance for loan losses is maintained at a level sufficient to provide for probable loan losses based on evaluating known and inherent risks in the loan portfolio. The allowance is provided based upon 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 at the time the consolidated financial statements are prepared.

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

Management's evaluation of the allowance for loan losses is based on ongoing, quarterly assessments of the known and inherent risks in the loan portfolio. Loss factors are based on the Company's historical loss experience with additional consideration and adjustments made for changes in economic conditions, changes in the amount and composition of the loan portfolio, delinquency rates, changes in collateral values, 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.

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 three 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.

#### Investment Valuation

Investment securities are classified as held to maturity when the Company has the ability and positive intent to hold such securities to maturity. Investment securities held to maturity are carried at amortized cost. Unrealized losses due to fluctuations in fair value are recognized when it is determined that a credit related other than temporary decline in value has occurred. Investment securities bought and held principally for the purpose of sale in the near term are classified as trading securities. Securities that the Company intends to hold for an indefinite period, but not necessarily to maturity are classified as available for sale. Securities available for sale are reported at fair value. Unrealized gains and losses, net of the related deferred tax effect, are reported as a net amount in a separate component of shareholders' equity entitled "accumulated other comprehensive income (loss)." Realized gains and losses on securities available for sale, determined using the specific identification method, are included in earnings. Premiums and discounts are amortized using the interest method over the period to maturity or expected call, if sooner.

Unrealized losses on available for sale and held to maturity securities are evaluated at least quarterly to determine whether the declines in value should be considered other than temporary. An other than temporary impairment ("OTTI")

is separated into a credit and noncredit component. Noncredit component losses are recorded in other comprehensive income (loss) when the Company a) does not intend to sell the security or b) is not more likely than not to have to sell the security prior to the security's anticipated recovery. Credit component losses are reported through earnings. To determine the component of OTTI related to credit losses, the Company compares the amortized cost basis of the OTTI security to the present value of the revised expected cash flows, discounted using the current pre-impairment yield. Significant judgment of management is required in this analysis that includes, but is not limited to, assumptions regarding the ultimate collectability of principal and interest on the underlying collateral.

Although the determination of whether an impairment is other-than-temporary involves significant judgment, the underlying principle used is based on positive evidence indicating that an investment's carrying value is recoverable within a reasonable period of time outweighs negative evidence to the contrary. Evidence that is objectively determinable and verifiable is given

greater weight than evidence that is subjective and or not verifiable. Evidence based on future events will generally be less objective as it is based on future expectations and therefore is generally less verifiable or not verifiable at all. Factors considered in evaluating whether a decline in value is other-than-temporary include, (a) the length of time and the extent to which the fair value has been less than amortized cost, (b) the financial condition and near-term prospects of the issuer and (c) the Company's intent and ability to retain the investment for a period of time. Other factors that may be considered include the ratings by recognized rating agencies; capital strength and other near-term prospects of the issuer and recommendation of investment advisors or market analysts. In situations in which the security's fair value is below amortized cost but it continues to be probable that all contractual terms of the security will be satisfied, the decline is solely attributable to noncredit factors, and the Company asserts that it has positive intent and ability to hold that security to maturity, no OTTI is recognized.

#### Valuation of REO and Foreclosed Assets

Real estate properties acquired through foreclosure or by deed-in-lieu of foreclosure are recorded at fair value less estimated costs to sell. Fair value is generally determined by management based on a number of factors, including third-party appraisals of fair value in an orderly sale. Accordingly, the valuation of REO is subject to significant external and internal judgment. Any differences between management's assessment of fair value, less estimated costs to sell, and the carrying value of the loan at the date a particular property is transferred into REO are charged to the allowance for loan losses. Management periodically reviews REO values to determine whether the property continues to be carried at the lower of its recorded book value or fair value, net of estimated costs to sell. Any further decreases in the value of REO are considered valuation adjustments and trigger a corresponding charge to non-interest expense in the Consolidated Statements of Operations. Expenses from the maintenance and operations of REO are included in other non-interest expense.

#### 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.

#### Income taxes

The Company estimates tax expense based on the amount it expects to owe various tax authorities. Accrued taxes represent the net estimated amount due or to be received from taxing authorities. In estimating accrued taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account



statutory, judicial and regulatory guidance in the context of our tax position.

We determine our deferred income taxes using the balance sheet method, under which the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense or benefit is recorded based on changes in deferred tax assets and liabilities between periods. The Company records net deferred tax assets to the extent these assets will more likely than not be realized. In making the determination whether a deferred tax asset is more likely than not to be realized, management seeks to evaluate all available positive and negative evidence including the possibility

of future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial results.

The Company reversed its deferred tax asset valuation allowance as of March 31, 2014 due to management's determination that it was "more likely than not" that the Company's deferred tax assets would be realized. "More likely than not" is defined as greater than 50% probability of occurrence. A determination as to the ultimate realization of the deferred tax assets is dependent upon management's judgment and evaluation of both positive and negative evidence, forecasts of future taxable income, applicable tax planning strategies, and an assessment of current and future economic and business conditions. The determination resulted from consideration of both the positive and negative evidence available that can be objectively verified. Considering the guidance in paragraphs 21-23 of Accounting Standards Codification 740-10-30, forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. At March 31, 2014, the Company was in a cumulative loss position over a three year period which is considered a significant piece of negative evidence that is difficult to overcome. Accordingly, in its determination of the deferred tax asset, the Company analyzed and evaluated the nature and timing of relevant facts and circumstances with respect to its cumulative loss.

Management considered the fact that the Company was in a cumulative profit position over a two year period, with seven consecutive profitable quarters as part of its evaluation of the Company's three year cumulative loss. Management also evaluated the unique and non-recurring the loss evidence as an important consideration in its determination. While this loss occurred, the nature and timing of the components of loss can be assessed as to whether these losses represent a continuing condition. Management determined that the steps taken to strengthen its credit risk management process have addressed the conditions that existed when the loans were created and the losses were incurred. The outcome of this evaluation is an important factor in management's determination that positive evidence overcomes the existence of the cumulative loss in the recent past.

Positive considerations also evaluated by management include the reduction of the inherent risk in the loan portfolio as indicated by the reduction of classified loans and associated credit costs, significant reductions in REO properties which contributes to lower REO holding costs, the Company's profitable operating performance during the past two years, termination of regulatory agreement and orders, utilization of excess low yielding cash balances to purchase higher yielding investment securities and increase loans receivable balances, as well as the sustained improvement in the economic conditions at the national and local level.

As management determined that positive evidence outweighed the negative, financial forecasts and projections were also developed to assess the Company's capacity to realize the deferred tax assets. As a result of this analysis management concluded it was more likely than not that forecasted earnings performance would allow for the realization of the deferred tax assets in a timely manner. For additional information see Notes 1 and 12 of the Notes to the Consolidated Financial Statements in Item 8 of this Form 10-K.

#### Recently Adopted Accounting Pronouncements and New Accounting Pronouncements

See Note 1 of the Notes to the Consolidated Financial Statements in Item 8 of this Form 10-K for a description of recently adopted and new accounting pronouncements, including the respective dates of adoption and expected effects on the Company's financial position and results of operations.

#### Operating Strategy

Fiscal year 2014 marked the 91st anniversary since the Bank began operations in 1923. The historical emphasis had been on residential real estate lending. Since 1998, however, the Company has been diversifying its loan portfolio through the expansion of its commercial and construction loan portfolios. At March 31, 2014, commercial and construction loans represented 78.0% of total loans. Commercial lending, including commercial real estate loans,

typically has higher credit risk, greater interest margins and shorter terms than residential lending which can increase the loan portfolio's profitability. The primary business strategy of the Company is to provide comprehensive banking and related financial services within its primary market area.

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. The Company has continued to reduce its exposure to land development and speculative construction loans. The total land development and speculative construction loan portfolios declined to \$19.9 million at March 31, 2014 as compared to \$26.9 million at March 31, 2013. Nonperforming assets decreased \$15.0 million to \$21.8 million at March 31, 2014 compared to \$36.8 million at March 31, 2013. 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 \$359.7 million and \$337.5 million at March 31, 2014 and March 31, 2013, 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 will enable 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 plans to discontinue the utilization of internet based deposits during fiscal year 2015, 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 \$33.4 million at March 31, 2014 compared to March 31, 2013.

**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. The Company has instituted expense control measures such as cancelling certain projects and capital purchases, and reducing travel and entertainment expenditures. The Company has formed a cost saving committee whose mission is to find additional cost saving opportunities at the Company.

**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 grow 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.

#### Comparison of Financial Condition at March 31, 2014 and 2013

Cash, including interest-earning accounts, totaled \$68.6 million at March 31, 2014 compared to \$115.4 million at March 31, 2013. The Company has been maintaining a higher liquidity position as compared to historical levels for regulatory and asset-liability matching purposes. However, during fiscal year 2014, the Company made the decision to invest a portion of its excess cash balances into investment and mortgage-backed securities to earn higher yields than cash held in interest-earning accounts based on its asset/liability program objectives in order to maximize earnings. As a part of the Company's liquidity 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 under the FDIC. At March 31, 2014, certificates of deposits held for investment totaled \$36.9 million compared to \$44.6 million at March 31, 2013.

Investment securities available for sale totaled \$23.4 million and \$6.2 million at March 31, 2014 and at March 31, 2013, respectively. The increase was due to a decision by the Company to invest additional excess cash into higher yielding investment securities. The Company primarily purchases agency securities with maturities of five years or less. For the year ended March 31, 2014, the Company determined that none of its investment securities required an OTTI charge

Mortgage-backed securities available-for-sale totaled \$78.6 million at March 31, 2014, compared to \$431,000 at March 31, 2013. The increase was due to a decision by the Company to invest additional excess cash into higher yielding mortgage-backed securities. The Company primarily purchases a combination of mortgage-backed securities backed by government agencies (FHLMC, FNMA, SBA or GNMA). The Company does not believe that it has any exposure to sub-prime mortgage backed securities.

Loans receivable, net, totaled \$520.9 million at March 31, 2014, compared to \$520.4 million at March 31, 2013, an increase of \$568,000. The increase was due to the purchase of two automobile loan pools totaling \$22.1 million. The increase from the automobile loan pool purchases were offset by the reduction in classified loans of \$19.0 million in addition to a reduction in land development loans of \$7.2 million during the twelve months ended March 31, 2014. 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.

Goodwill was \$25.6 million at March 31, 2014 and 2013. The Company performed its annual goodwill impairment test during the third quarter ended December 31, 2013. The results of these tests indicated that the Company's goodwill was not impaired. For additional information on our goodwill impairment testing, see "Goodwill Valuation" included in this Item 7.

Deposit accounts increased \$26.3 million to \$690.1 million at March 31, 2014, compared to \$663.8 million at March 31, 2013. The Company had no wholesale-brokered deposits as of March 31, 2014 or March 31, 2013. Core branch deposits accounted for 95.7% of total deposits at March 31, 2014, compared to 94.4% at March 31, 2013. The Company plans to continue its focus on core deposits and on building customer relationships as opposed to obtaining deposits through the wholesale markets.

Deferred income taxes, net totaled \$15.4 million at March 31, 2014 compared to \$522,000 at March 31, 2013. The increase was due to the reversal of the valuation allowance on the Company's deferred income taxes during fiscal year 2014. For additional information on the Company's deferred income taxes, see Note 12 of the Notes to the Consolidated Financial Statements contained in Item 8 of the Form 10-K.

Shareholders' equity increased \$19.5 million to \$98.0 million at March 31, 2014 from \$78.4 million at March 31, 2013. The increase in equity was primarily a result of the \$19.4 million net income for the year ended March 31, 2014. Additional paid-in-capital decreased by \$356,000, which included \$399,000 relating to the RAMCorp's repurchase of shares from its noncontrolling interest owner. The Bank subsequently purchased those shares from RAMCorp increasing the Bank's ownership in RAMCorp from 85% at March 31, 2013 to 90% at March 31, 2014. The purchase price of these shares was based on two appraisals of RAMCorp. The Bank may purchase additional shares over the next fiscal year which would further increase its ownership in RAMCorp.

#### 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, 2013. 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 35%, 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 7.5%, a net interest margin that approximated 4.0% and a return on assets that ranged from 0.68% to 0.99% (average of 0.80%). 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 16.7% utilized for our cash flow estimates and a terminal value estimated at 1.49 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 1.22 times tangible book value. The Company calculated a fair value of its reporting unit of \$91 million using the corporate value approach, \$87 million using the income approach and \$97 million using the market approach, with a final concluded value of \$93 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 less than its carrying value and therefore the Company performed a step two analysis.

The Company calculated the implied fair value of its reporting unit under step two of the goodwill impairment test. Under this approach, the Company calculated the fair value for its unrecognized deposit intangible, as well as the remaining assets and liabilities of the reporting unit. The calculated implied fair value of the Company's goodwill exceeded the carrying value by \$19.3 million. Significant adjustments were made to the fair value of the Company's loans receivable compared to its recorded value. The Company utilized a discounted cash flow approach to determine the fair value of its loans receivable. A key assumption was determining an appropriate discount rate. In determining the discount rate, the Company started with its contractual cash flows and its current lending rate for comparable loans and adjusted these for both credit and liquidity premiums. Based on results of the step two impairment test, the Company determined no impairment charge of goodwill was required.

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.

#### Fair Value of Level 3 Assets

The Company determines the fair value of certain assets that are classified as Level 3 under the fair value hierarchy established by accounting standards. These Level 3 assets are valued using significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. These Level 3 assets include certain available for sale securities, loans measured for impairment, and REO for which there is neither an active market for identical assets from which to determine fair value, nor is there sufficient, current market information about similar assets to use as observable, corroborated data for all significant inputs in a valuation model.

Under these circumstances, the fair values of these assets are determined using pricing models, discounted cash flow methodologies, appraisals, valuation in accordance with accounting standards, for which the determination of fair value requires significant management judgment or estimation.

Valuations using models or other techniques are dependent upon assumptions used for the significant inputs. Where market data is available, the inputs used for valuation reflect that information as of the valuation date. In periods of extreme volatility, lessened liquidity or in illiquid markets, there may be more variability in market pricing or a lack of market data to use in the valuation process. Judgment is then applied in formulating those inputs.

At March 31, 2014, the market for the Company's collateralized debt obligation ("CDO"), which is secured by trust preferred securities issued by other bank holding companies, was determined to be inactive in management's judgment. 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 significant widening of the bid-ask spread in the brokered markets in which these securities trade, the low number of new issuances for similar securities, the significant increase in the implied liquidity risk premium for similar securities, the lack of information that is released publicly and discussions with third-party industry analysts. Due to the inactivity in the market, observable market data was not readily available for all significant inputs for this security. Accordingly, the CDO was classified as Level 3 in the fair value hierarchy. Consistent with previous valuations, the Company determined that an income approach valuation technique (using cash flows and present value techniques) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs was the most appropriate valuation technique. Management used significant unobservable inputs that reflect our assumptions of what a market participant would use to price this 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 our future expectations of the capital markets.

Additionally, the Company received two independent Level 3 valuation estimates for this security. Those valuation estimates were based on proprietary pricing models utilizing significant unobservable inputs. The Company's estimate of fair value fell within the range of valuations provided, however, the magnitude in the range of fair value estimates further supported the difficulty in estimating the fair value for these types of securities in the current environment. Additionally, the Company believes that some of the assumptions used were overly aggressive and unrealistic. Therefore, the Company believes the use of its internally developed valuation model at March 31, 2014 is reasonable.

Certain loans included in the loan portfolio were deemed impaired at March 31, 2014. Accordingly, loans measured for impairment were classified as Level 3 in the fair value hierarchy as there is no active market for these loans. Measuring impairment of a loan requires judgment and estimates, and the eventual outcomes may differ from those estimates. Impairment was measured based on a number of factors, including recent independent appraisals which are further reduced for estimated selling costs or as a practical expedient by estimating the present value of expected future cash flows, discounted at the loan's effective interest rate.

In addition, REO was classified as Level 3 in the fair value hierarchy. Management generally determines fair value based on a number of factors, including third-party appraisals of fair value less estimated costs to sell. The valuation of REO is subject to significant external and internal judgment, and the eventual outcomes may differ from those estimates.

For additional information on our Level 1, 2 and 3 fair value measurements see Note 17 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

#### Comparison of Operating Results for the Years Ended March 31, 2014 and 2013

**Net Income or Loss.** Net income was \$19.4 million, or \$0.87 per diluted share for the year ended March 31, 2014, compared to \$2.6 million, or \$0.12 per diluted share for the year ended March 31, 2013. The increase in earnings was due primarily to the reversal of the valuation allowance on the Company's deferred tax assets totaling \$15.1 million. The increase in earnings also reflects the current stabilization of the economic environment and improvement in asset quality at the Company, which contributed to a decrease in the provision for loan losses of \$4.6 million. Earnings have also been impacted by the continued low interest rate environment.

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 fiscal year 2014 decreased \$5.2 million, or 17.7% to \$24.2 million compared to \$29.4 million in fiscal year 2013. The net interest margin for the fiscal year ended March 31, 2014 was 3.37% compared to 4.06% for the same prior year period. This decrease was primarily the result of the decrease in average loans receivable, the downward repricing of loans within the loan portfolio and the increase in average lower yielding cash and short term investment balances.

The Company achieves better net interest rate margins in a stable or increasing interest rate environment as a result of the balance sheet being slightly asset interest rate sensitive. Approximately 6.72% of our loan portfolio was adjustable (floating) at March 31, 2014. At March 31, 2014, approximately \$26.0 million, or 72.56% of our adjustable (floating) loan portfolio contained interest rate floors, below which the loans' 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 March 31, 2014, \$25.6 million or 4.80% of the loans in the Company's loan portfolio were at the floor interest rate of which \$21.2 million or 82.76% had yields that would begin floating again once the 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 spreads.

**Interest Income.** Interest income was \$26.8 million for the fiscal year ended March 31, 2014 compared to \$32.9 million for the fiscal year ended March 31, 2013. This decrease was due primarily to a decrease in average loan balances, and the impact of loans repricing down to the current low interest rates.

Average interest-bearing assets decreased \$7.3 million to \$718.8 million for fiscal year 2014 from \$726.1 million for fiscal year 2013. The \$7.3 million decrease was mainly due to the decrease in the average balance of loans receivable. The average balance of loans receivable decreased \$76.2 million for the year ended March 31, 2014 from \$599.0 million for the last fiscal year. The decrease in average loan balances was due to the Company's effort in the past fiscal year to restructure its balance sheet and reduce its level of classified and nonaccrual loans. The yield on interest-earning assets was 3.73% for fiscal year 2014 compared to 4.54% for fiscal year 2013. During the years ended March 31, 2014 and 2013, the Company reversed \$180,000 and \$156,000, respectively, of interest income on nonperforming loans.

**Interest Expense.** Interest expense for the fiscal year ended March 31, 2014 totaled \$2.6 million, a \$917,000 or 26.3% decrease from \$3.5 million for the fiscal year ended March 31, 2013. The decrease in interest expense was the result of declining deposit costs, primarily due to the low interest rate environment. 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 from 0.47% for the year ended March 31, 2013 to 0.36% for the year ended March 31, 2014. The weighted average interest rate on other interest-bearing liabilities decreased to 2.37% for the year ended March 31, 2014 from 3.25% for the prior fiscal year. This decrease was primarily due to the Company's junior subordinated debentures changing from a fixed to floating interest rate during June 2012.

**Provision for Loan Losses.** The recapture of the provision for loan losses for the fiscal year 2014 totaled \$3.7 million compared to a provision for loan losses for fiscal year 2013 of \$900,000. The decrease in the provision for loan losses was primarily a result of a decrease in net charge-offs and in the level of delinquent, nonperforming and classified loans, stabilizing real estate values in our market areas and a decrease in the average loan portfolio balance compared to the same prior year period. 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 as the pace of recovery has been modest and uneven and ongoing stress in the economy will likely continue to be challenging for our borrowers going forward. The relative weak economy has also adversely affected the Bank's commercial business and commercial real estate customers although classified commercial real estate loans decreased \$17.8 million to \$19.8 million at March 31, 2014 compared to \$37.6 million at March 31, 2013.

Net recoveries for the year ended March 31, 2014 were \$608,000 compared to net charge-offs of \$5.2 million for the same period last year. Net charge-offs decreased 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. Net recoveries to average net loans for the year ended March 31, 2014 were (0.12)% compared to net charge-offs of 0.86% for the same period last year. Nonperforming loans decreased to \$14.1 million at March 31, 2014 compared to \$21.1 million at March 31, 2013. The ratio of allowance for loan losses to total loans was 2.35% at March 31, 2014 compared to 2.92% at March 31, 2013. The allowance as a percentage of nonperforming loans increased to 89.25% at March 31, 2014 compared to 74.02% at March 31, 2013.

Impaired loans are subjected to an impairment analysis to determine an appropriate reserve amount to be held against each loan. As of March 31, 2014, the Company had identified \$26.0 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 those impaired loans, \$24.4 million have no specific valuation allowance as their estimated collateral value is equal to or exceeds the carrying costs, which in some cases is the result of previous loan charge-offs. The remaining \$1.6 million have specific valuation allowances totaling \$279,000. Charge-offs on these impaired loans totaled \$1.1 million from their original loan balance. Based on a comprehensive analysis, management deemed the allowance for loan losses of \$12.6 million at March 31, 2014 adequate to cover probable losses inherent in the loan portfolio. See Note 6 of the Notes to the Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding the allowance for loan losses.

**Non-Interest Income.** Non-interest income decreased \$506,000 to \$8.4 million for the year ended March 31, 2014 from \$8.9 million for the same period in 2013. The decrease in non-interest income was primarily due to the decrease in the gain on sale of loans held for the year ended March 31, 2013 which included a \$704,000 gain on sale resulting from the planned bulk sale of one-to-four family mortgages sold to FHLMC in June 2012. Broker loan fees also decreased by \$232,000 in fiscal year 2014 compared to the year ended March 31, 2013 as mortgage related activity slowed in the Company's market area, particularly refinance activity in response to the increase in mortgage interest rates during the year. These decreases were offset by fewer losses on REO sales. The loss on sales of REO was \$245,000 for the year ended March 31, 2014 compared to losses of \$384,000 for the year ended March 31, 2013. The decreases were further offset by an increase in asset management fees of \$458,000 for the year ended March 31, 2014 compared to the prior year. The increase in asset management fees was a result of an increase in assets under management of RAMCorp, which totaled \$359.7 million at March 31, 2014 compared to \$337.5 million at March 31, 2013.

**Non-Interest Expense.** Non-interest expense decreased \$2.8 million to \$32.0 million for fiscal year ended March 31, 2014 compared to \$34.8 million for fiscal year ended March 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 \$3.0 million from \$5.8 million for the year ended March 31, 2013 to \$2.8 million for the year ended March 31, 2014. This decrease was primarily due to the decrease in REO balances as well as the stabilization of real estate values in the Company's market area. This decrease was offset by an increase in data processing expenses. Data processing expenses increased \$638,000 for the year-ended March 31, 2014 compared to the same prior year periods as a result of the Company converting to a new core banking platform.

**Income Taxes.** The benefit for income taxes was \$15.1 million for the year ended March 31, 2014 compared to \$29,000 provision for income taxes for the year ended March 31, 2013. The \$15.1 million decrease in provision for income taxes was due to the reversal of the valuation allowance on the Company's deferred tax assets of \$15.4 million which resulted in a benefit for income taxes. In accordance with current accounting guidance, a valuation allowance is required to be recognized if it is "more likely than not" that all or a portion of the deferred tax assets will not be realized. "More likely than not" is defined as greater than 50% probability of occurrence. A determination as to the ultimate realization of the deferred tax assets is dependent upon management's judgment and evaluation of both positive and negative evidence, forecasts of future taxable income, applicable tax planning strategies, and an assessment of current and future economic and business conditions.

As of March 31, 2014, management deemed that it was no longer appropriate to carry a deferred tax asset valuation allowance related to the Company's deferred tax asset. Management considered the Company's earnings during the past three years, including that the Company has had seven consecutive profitable quarters, 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. This resulted in a reversal of the deferred tax asset valuation allowance as a result of changes in the factors considered by management when the Company initially established the valuation allowance. At



March 31, 2014, the Company had a deferred tax asset of \$15.4 million which included \$8.2 million for federal and state net operating loss carryforwards, which will expire in 2032. Reference is made to Note 12 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K, for further discussion of the Company's income taxes.

Comparison of Operating Results for the Years Ended March 31, 2013 and 2012

**Net Income or Loss.** Net income was \$2.6 million, or \$0.12 per diluted share for the year ended March 31, 2013, compared to a net loss of \$31.7 million, or \$(1.42) per diluted share for the year ended March 31, 2012. The increase in earnings reflects the current stabilization of the economic environment and improvement in asset quality at the Company, which contributed to a significant decrease in the provision for loan losses of \$28.5 million.

**Net Interest Income.** Net interest income for fiscal year 2013 decreased \$4.2 million, or 12.5% to \$29.4 million compared to \$33.7 million in fiscal year 2012. The net interest margin for the fiscal year ended March 31, 2013 was 4.06% compared to 4.33% for the same prior year period. This decrease was primarily the result of the decrease in average loans receivable and the downward repricing of loans within the loan portfolio and increase in lower yielding cash and short term investments.

**Interest Income.** Interest income was \$32.9 million for the fiscal year ended March 31, 2013 compared to \$39.5 million for the fiscal year ended March 31, 2012. This decrease was due primarily to a decrease in average loan balances, and to a lesser extent, the impact of loans repricing down to the current low interest rates. Average interest-bearing assets decreased \$51.7 million to \$726.1 million for fiscal year 2013 from \$777.9 million for fiscal year 2012. The \$51.7 million decrease was mainly due to the decrease in the average balance of loans receivable. The average balance of loans receivable decreased \$95.4 million for the year ended March 31, 2013 from \$608.4 million for the last fiscal year. The decrease in average loan balances was due to the Company's effort in the past fiscal year to restructure its balance sheet and reduce its overall loans receivable as part of the Company's asset quality, capital and liquidity strategies. The decrease was also due to an increase in principal repayments and to the sale of \$31.4 million in one-to-four family mortgages loans to FHLMC during the quarter-ended June 30, 2012. The yield on interest-earning assets was 4.54% for fiscal year 2013 compared to 5.08% for fiscal year 2012. During the years ended March 31, 2013 and 2012, the Company reversed \$156,000 and \$974,000, respectively, of interest income on nonperforming loans.

**Interest Expense.** Interest expense for the fiscal year ended March 31, 2013 totaled \$3.5 million, a \$2.4 million or 40.6% decrease from \$5.9 million for the fiscal year ended March 31, 2012. The decrease in interest expense was the result of declining deposit costs, primarily due to the low interest rate environment and change in deposit mix. The deposit mix has shifted from higher costing certificates of deposits to lower costing transaction accounts. The weighted average interest rate on interest-bearing deposits decreased from 0.70% for the year ended March 31, 2012 to 0.47% for the year ended March 31, 2013. The decrease in interest expense was also due the Company's junior subordinated debentures changing from a fixed to floating interest rate. The weighted average interest rate on other interest-bearing liabilities decreased to 3.25% for the year ended March 31, 2013 from 5.97% for the prior fiscal year.

**Provision for Loan Losses.** The provision for loan losses for fiscal year 2013 was \$900,000 compared to \$29.4 million for the same period in the prior year. The decrease in the provision for loan losses was primarily a result of a decrease in the level of delinquent and classified loans, an improvement in credit quality, a decrease in net charge-offs in addition to an overall decrease in the loan portfolio compared to prior year. However, classified loans have remained at higher levels compared to historical trends. These conditions are primarily the result of the continuing weak economy and decline in real estate values which significantly affected our borrower's liquidity and ability to repay loans. The weak economy has also adversely affected the Bank's commercial business and commercial real estate customers in recent quarters. Classified commercial real estate loans increased to \$37.6 million at March 31, 2013 compared to \$35.1 million at March 31, 2012. Economic factors impacting these borrowers typically lag that of non-commercial business and non-commercial real estate borrowers.

**Net charge-offs** for the year ended March 31, 2013 were \$5.2 million compared to \$24.4 million for the same period last year. Net charge-offs declined due to the stabilization of real estate values and the improvement in asset quality at the Company. The net charge-offs were primarily attributable to the charge-off of commercial business loans totaling

\$1.5 million and commercial real estate loans totaling \$1.5 million. Net charge-offs to average net loans for the year ended March 31, 2013 were 0.86% compared to 3.51% for the same period last year. Nonperforming loans decreased to \$21.1 million at March 31, 2013 compared to \$44.2 million at March 31, 2012. The ratio of allowance for loan losses to total loans was 2.92% at March 31, 2013 compared to 2.91% at March 31, 2012. The allowance as a percentage of nonperforming loans increased to 74.02% at March 31, 2013 compared to 45.11% at March 31, 2012. This ratio increased due to the overall decrease in nonperforming loans.

Impaired loans are subjected to an impairment analysis to determine an appropriate reserve amount to be held against each loan. As of March 31, 2013, the Company had identified \$32.6 million of impaired loans. Because the significant majority of the impaired loans are collateral dependent, nearly all of the specific allowances are calculated based on the fair value of the collateral. Of those impaired loans, \$23.3 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. The remaining \$9.3 million have specific valuation allowances totaling \$719,000. Charge-offs on these impaired loans totaled \$3.2 million from their original loan balance. Based on a comprehensive analysis, management deemed the allowance for loan losses of \$15.6 million at March 31, 2013 (2.92% of total loans and 74.02% of nonperforming loans) adequate to cover probable losses inherent in the loan portfolio. See Note 6 of the Notes to the Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding the allowance for loan losses.

**Non-Interest Income.** Non-interest income increased \$2.0 million to \$8.9 million for the year ended March 31, 2013 from \$6.8 million for the same period in 2012. The increase in non-interest income was primarily due the increase in the gain on sale of loans held for sale of \$1.2 million for the year ended March 31, 2013 compared to the prior fiscal year. The \$1.2 million increase during the year ended March 31, 2013 was due to a \$704,000 gain on sale resulting from the planned bulk sale of one-to-four family mortgages sold to FHLMC in June 2012 as well as an increase in mortgage banking activity due to an increase in refinancing activity. Broker loan fees increased by \$256,000 in fiscal year 2013 compared to the year ended March 31, 2012. Furthermore, the Bank experienced, in total, fewer losses on REO sales. The loss on sales of REO was \$384,000 for the year ended March 31, 2013 compared to losses of \$556,000 for the year ended March 31, 2012, which was a \$172,000 improvement over the prior year. These increases were offset by asset management fees which decreased \$195,000 for the year ended March 31, 2013 compared to the prior year. The decrease in asset management fees was a result of a decrease in assets under management of RAMCorp, which totaled \$359.6 million at March 31, 2012 compared to \$337.5 million at March 31, 2013.

**Non-Interest Expense.** Non-interest expense increased \$335,000 to \$34.8 million for fiscal year ended March 31, 2013 compared to \$34.4 million for fiscal year ended March 31, 2012. Management continues to focus on managing controllable costs as the Company proactively adjusts to lower levels of real estate lending activity. However, certain expenses remain out of the Company's control, including FDIC insurance premiums and REO expenses and write-downs.

The principal component of the increase in the Company's non-interest expense was due to the increase in REO related expenses (which includes operating costs and write-downs on properties) of \$684,000 along with an increase in FDIC premiums of \$396,000. These increases were partially offset by a \$564,000 decrease in salaries and employee benefits and a \$164,000 decrease in marketing expenses.

**Income Taxes.** The provision for income taxes was \$29,000 for the year ended March 31, 2013 compared to \$8.4 million for the year ended March 31, 2012. The \$8.3 million decrease in provision for income taxes was a result of an \$8.7 million charge to create a valuation allowance against the Company's deferred tax assets for the year ended March 31, 2012. In accordance with current accounting guidance, a valuation allowance is required to be recognized if it is "more likely than not" that all or a portion of the deferred tax assets will not be realized. "More likely than not" is defined as greater than 50% probability of occurrence. A determination as to the ultimate realization of the deferred tax assets is dependent upon management's judgment and evaluation of both positive and negative evidence, forecasts of future taxable income, applicable tax planning strategies, and an assessment of current and future economic and business conditions.

As of March 31, 2013 and 2012, the Company determined that it was appropriate to carry a deferred tax asset valuation allowance of \$16.2 million and \$16.8 million, respectively, reducing its deferred tax asset to \$522,000 and \$603,000, respectively, which is the amount related to the Company's unrealized losses on its available for sale debt securities. At March 31, 2013, the Company had a deferred tax asset of \$5.8 million and \$257,000 for federal and

state, net operating loss carryforwards, respectively, which will expire in 2032. Reference is made to Note 12 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K, for further discussion of the Company's income taxes.

**Average Balance Sheet.** The following table sets forth, for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income earned on average interest-earning assets and interest expense paid on average interest-bearing liabilities, resultant yields, interest rate spread, ratio of interest-earning assets to interest-bearing liabilities and net interest margin. Average balances for a period have been calculated using monthly average balances during such period. Interest income on tax-exempt securities has been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 34%. Non-accruing loans were included in the average loan amounts outstanding. Loan fees of \$799,000, \$964,000 and \$979,000 are included in interest income for the years ended March 31, 2014, 2013 and 2012, respectively.

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

	Year Ended March 31,								
	2014			2013			2012		
	Average	Interest	Yield/	Average	Interest	Yield/	Average	Interest	Yield/
	Balance	and	Cost	Balance	and	Cost	Balance	and	Cost
	(Dollars in thousands)								
<b>Interest-earning assets:</b>									
Mortgage loans	\$ 433,110	\$ 20,553	4.75%	\$ 521,224	\$ 28,034	5.38%	\$ 608,419	\$ 34,278	5.63%
Non-mortgage loans	89,696	4,870	5.43	77,804	4,007	5.15	85,963	4,616	5.37
<b>Total net loans</b>	<b>522,806</b>	<b>25,423</b>	<b>4.86</b>	<b>599,028</b>	<b>32,041</b>	<b>5.35</b>	<b>694,382</b>	<b>38,894</b>	<b>5.60</b>
Mortgage-backed securities (1)	23,245	424	1.82	813	25	3.08	1,490	51	3.42
Investment securities (1)	18,862	271	1.44	8,159	300	3.68	8,393	209	2.49
Daily interest-bearing assets	1,316	-	-	1,347	-	-	4,186	-	-
Other earning assets	152,573	686	0.45	116,776	574	0.49	69,413	400	0.58
<b>Total interest-earning assets</b>	<b>718,802</b>	<b>26,804</b>	<b>3.73</b>	<b>726,123</b>	<b>32,940</b>	<b>4.54</b>	<b>777,864</b>	<b>39,554</b>	<b>5.08</b>
<b>Non-interest-earning assets:</b>									
Office properties and equipment, net	17,200			17,636			16,315		
Other non-interest-earning assets	53,342			64,582			76,475		
<b>Total assets</b>	<b>\$ 789,344</b>			<b>\$ 808,341</b>			<b>\$ 870,654</b>		
<b>Interest-bearing liabilities:</b>									
Regular savings accounts	\$ 59,844	\$ 87	0.15	\$ 49,394	\$ 92	0.19	\$ 40,345	\$ 124	0.31
Interest checking	93,395	102	0.11	86,091	135	0.16	96,764	281	0.29
Money market accounts	224,689	477	0.21	228,269	602	0.26	234,325	1,049	0.45
Certificates of deposit	174,522	1,307	0.75	206,565	1,838	0.89	248,696	2,903	1.17
<b>Total interest-bearing deposits</b>	<b>552,450</b>	<b>1,973</b>	<b>0.36</b>	<b>570,319</b>	<b>2,667</b>	<b>0.47</b>	<b>620,130</b>	<b>4,357</b>	<b>0.70</b>
Other interest-bearing liabilities	25,093	595	2.37	25,185	818	3.25	25,239	1,508	5.97
	<b>577,543</b>	<b>2,568</b>	<b>0.44</b>	<b>595,504</b>	<b>3,485</b>	<b>0.59</b>	<b>645,369</b>	<b>5,865</b>	<b>0.91</b>

T o t a l interest-bearing liabilities			
Non-interest-bearing liabilities:			
Non-interest-bearing deposits	120,290	127,048	110,959
Other liabilities	9,653	8,619	9,457
Total liabilities	707,486	731,171	765,785
Shareholders' equity	81,858	77,170	104,869
Total liabilities and shareholders' equity	\$ 789,344	\$ 808,341	\$ 870,654
Net interest income	\$ 24,236	\$ 29,455	\$ 33,689
Interest rate spread	3.29%	3.95%	4.17%
Net interest margin	% 3.37	% 4.06	% 4.33
Ratio of average interest-earning asset to average interest-bearing liabilities	% 124.46	% 121.93	% 120.53
Tax Equivalent Adjustment (2)	\$ -	\$ 8	\$ 22

(1) 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 change in fair value that are reflected as a component of shareholders' equity.

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

## Rate/Volume Analysis

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

	Year Ended March 31,					
	2014 vs. 2013			2013 vs. 2012		
	Increase (Decrease) Due to		Total Increase (Decrease) (In thousands)	Increase (Decrease) Due to		Total Increase (Decrease)
Volume	Rate	Volume		Rate		
<b>Interest Income:</b>						
Mortgage loans	\$ (4,420)	\$ (3,061)	\$ (7,481)	\$ (4,767)	\$ (1,477)	\$ (6,244)
Non-mortgage loans	636	227	863	(425)	(184)	(609)
Mortgage-backed securities	413	(14)	399	(21)	(5)	(26)
Investment securities						
(1)	230	(259)	(29)	(6)	97	91
Daily interest-bearing	-	-	-	-	-	-
Other earning assets	162	(50)	112	243	(69)	174
Total interest income	(2,979)	(3,157)	(6,136)	(4,976)	(1,638)	(6,614)
<b>Interest Expense:</b>						
Regular savings accounts	18	(23)	(5)	24	(56)	(32)
Interest checking accounts	12	(45)	(33)	(29)	(117)	(146)
Money market deposit accounts	(9)	(116)	(125)	(26)	(421)	(447)
Certificates of deposit	(264)	(267)	(531)	(442)	(623)	(1,065)
Other interest-bearing liabilities	(3)	(220)	(223)	(3)	(687)	(690)
Total interest expense	(246)	(671)	(917)	(476)	(1,904)	(2,380)
Net interest income	\$ (2,733)	\$ (2,486)	\$ (5,219)	\$ (4,500)	\$ 266	\$ (4,234)

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

## Asset and Liability Management

The Company's principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating market interest rates. The Company has sought to reduce the exposure of its earnings to changes in market interest rates by attempting to manage the difference between asset and liability maturities and interest rates. The



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

The Company has adopted a strategy that is designed to maintain or improve the interest rate sensitivity of assets relative to its liabilities. The primary elements of this strategy involve: the origination of adjustable rate loans; increasing commercial loans, consumer loans that are adjustable rate and other short-term loans as a portion of total net loans receivable because of their generally shorter terms and higher yields than other one-to-four family residential mortgage loans; matching asset and liability maturities; investing in short-term securities; and selling most long term, fixed rate, one-to-four family mortgage loan originations. The strategy for liabilities has been to shorten the maturities for both deposits and borrowings. The longer-term objective is to increase the proportion of noninterest bearing demand deposits, low interest bearing demand deposits, money market accounts, and savings deposits relative to certificates of deposit to reduce our overall cost of funds.

The Company's mortgage servicing activities provide additional protection from interest rate risk. The Company retains servicing rights on all mortgage loans sold. As market interest rates rise, the fixed rate loans held in portfolio diminish in value. However, the value of the servicing portfolio tends to rise as market interest rates increase because borrowers tend not to prepay the underlying mortgages, thus providing an interest rate risk hedge versus the fixed rate loan portfolio. Loans serviced for others totaled \$125.2 million of which \$119.2 million is serviced for FHLMC at March 31, 2014. See "Item 1. Business -- Lending Activities -- Mortgage Loan Servicing."

Consumer loans, such as home equity lines of credit and installment loans, commercial loans and construction loans typically have shorter terms and higher yields than permanent residential mortgage loans, and accordingly reduce the Company's exposure to fluctuations in interest rates. Adjustable interest rate loans totaled \$275.9 million or 51.72% of total loans at March 31, 2014 as compared to \$344.3 million or 64.1% at March 31, 2013. Although the Company has sought to originate adjustable rate loans, the ability to originate and purchase such loans depends to a great extent on market interest rates and borrowers' preferences. Particularly in lower interest rate environments, borrowers often prefer to obtain fixed rate loans. See Item 1. "Business - Lending Activities - Construction Lending" and "- Lending Activities - Consumer Lending."

The Company may also invest in short-term to medium-term U.S. Government securities as well as mortgage-backed securities issued or guaranteed by U.S. Government agencies. At March 31, 2014 the combined portfolio carried at \$102.1 million had an average term to repricing or maturity of 3.79 years. Adjustable rate mortgage-backed securities totaled \$6.2 million at March 31, 2014 compared to \$300,000 at March 31, 2013. See Item 1. "Business -- Investment Activities."

#### Liquidity and Capital Resources

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

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. 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 junior subordinated debentures issued in connection with the sale of trust preferred securities through statutory business trusts. The Company continued with the interest deferral at March 31, 2014. As of March 31, 2014, the Company had deferred a total of \$3.7 million of interest payments. The accrual for these payments is included in accrued expenses and other liabilities on the Consolidated Balance Sheets and interest expense on the

Consolidated Statements of Operations. This deferral may adversely affect our ability to access wholesale funding facilities or obtain debt financing on commercially reasonable terms, or at all. For more information concerning limitations on our ability to incur additional debt and the risks related to our recent deferral of interest on our trust preferred securities, see Item 1A. “Risk Factors – We are required to comply with the terms of a written agreement with the Federal Reserve and lack of compliance could result in monetary penalties and /or additional regulatory actions.” and “--We have deferred payments of interest on our outstanding junior subordinated debentures and as a result we are prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock.”

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 year ended March 31, 2014, the Bank used its sources of funds primarily to fund loan commitments and purchase additional investment securities. At March 31, 2014, cash totaled \$68.6 million, or 8.3% 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 March 31, 2014, the Bank had no advances from the FRB and had a borrowing capacity of \$58.1 million from the FRB, subject to sufficient collateral. At March 31, 2014, there were no advances from the FHLB and the Bank had an available credit facility of \$174.2 million, subject to sufficient collateral and stock investment. At March 31, 2014, the Bank had sufficient unpledged collateral to allow it to utilize its available borrowing capacity from both 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 Bank has utilized brokered deposits from time to time, the Bank historically has not extensively relied on brokered deposits to fund its operations. At March 31, 2014 and 2013, the Bank had no brokered deposits, exclusive of CDARS and ICS deposits. The Bank participates in the CDARS and ICS products, which allow the Bank to accept deposits in excess of the FDIC insurance limits for that depositor and obtain “pass-through” insurance for the total deposit. The Bank’s CDARS and ICS balances were \$38.3 million, or 5.6% of total deposits, and \$35.8 million or 5.4% of total deposits, at March 31, 2014 and, 2013, respectively. 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 Bank uses this listing service as an additional source of funding and to further diversify its funding sources. These deposits carry a lower interest rate than the Company core branch deposits. As of March 31, 2014 and 2013, the Bank had deposits totaling \$249,000 and \$5.9 million, respectively, through this listing service. The Company plans to discontinue the utilization of internet based deposits during fiscal year 2015, however, the Company will continue to have accessibility to these funds in the future. The combination of all the Bank’s funding sources, gives the Bank available liquidity of \$521.6 million, or 63.3% of total assets at March 31, 2014.

At March 31, 2014, the Company had commitments to extend credit of \$8.1 million, unused lines of credit totaling \$54.6 million and undisbursed construction loans totaling \$30.5 million. The Company anticipates that it will have sufficient funds available to meet current loan commitments. Certificates of deposit that are scheduled to mature in less than one year from March 31, 2014 totaled \$112.9 million. Historically, the Company 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 \$76.1 million at March 31, 2014.

Sources of capital and liquidity for Riverview 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 restrictions and approval. The Company elected to defer regularly scheduled interest payments on its junior subordinated debentures during the first quarter of fiscal 2011, which in turn, restricts the Company’s ability to pay dividends on its common stock.

Effect of Inflation and Changing Prices

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

## New Accounting Pronouncements

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

## Contractual Obligations

The following table shows the contractual obligations by expected period. Further discussion of these commitments is included in Note 19 of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

At March 31, 2014, scheduled maturities of certificates of deposit, future operating minimum lease commitments, capital lease obligations and subordinated debentures were as follows (in thousands):

	Within 1 Year	Over 1 - 3 Years	Over 3 - 5 Years	After 5 Years	Total Balance
Certificates of deposit	\$ 112,892	\$ 27,016	\$ 14,523	\$ 7,822	\$ 162,253
Operating leases	1,783	3,164	2,495	2,295	9,737
Capital leases	85	189	218	1,869	2,361
Junior subordinates debentures	-	-	-	22,681	22,681
Total other contractual obligations	\$ 114,760	\$ 30,369	\$ 17,236	\$ 34,667	\$ 197,032

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

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

## 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.

At March 31, 2014, the Company had commercial loan commitments of \$801,000 and undisbursed commercial lines of credit of \$39.5 million. Commercial real estate mortgage loan commitments totaled \$4.5 million and the undisbursed balance of commercial real estate mortgage loans was \$2.5 million at March 31, 2014. At March 31, 2014, construction loan commitments totaled \$1.3 million and unused construction lines of credit totaled \$30.5 million. Real estate one-to-four family loan commitments totaled \$1.5 million and unused lines of credit secured by real estate one-to-four family loans totaled \$11.7 million at March 31, 2014. Other installment loan commitments totaled \$40,000 and unused lines of credit on other installment loans totaled \$850,000 at March 31, 2014. For additional information regarding future financial commitments, this discussion and analysis should be read in conjunction with Note 19 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.



## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

**Quantitative Aspects of Market Risk.** The Company does not maintain a trading account for any class of financial instrument nor does it engage in hedging activities or purchase high-risk derivative instruments. Furthermore, the Company is not subject to foreign currency exchange rate risk or commodity price risk. For information regarding the sensitivity to interest rate risk of the Company's interest-earning assets and interest-bearing liabilities, see the tables under Item 1. "Business -- Lending Activities," "-- Investment Activities" and "-- Deposit Activities and Other Sources of Funds" contained herein.

**Qualitative Aspects of Market Risk.** The Company's principal financial objective is to achieve long-term profitability while limiting its exposure to fluctuating market interest rates. The Company intends to reduce risk where appropriate but accepts a degree of risk when warranted by economic circumstances. The Company has sought to reduce the exposure of its earnings to changes in market interest rates by attempting to manage the mismatch between asset and liability maturities and interest rates. The principal element in achieving this objective is to increase the interest rate sensitivity of the Company's interest-earning assets by retaining in its portfolio, short-term loans and loans with interest rates subject to periodic adjustments. The Company relies on retail deposits as its primary source of funds. As part of its interest rate risk management strategy, the Company promotes transaction accounts and certificates of deposit with terms up to ten years.

Consumer and commercial loans are originated and held in portfolio as the short term nature of these portfolio loans match durations more closely with the short term nature of retail deposits such as interest checking, money market accounts and savings accounts. The Company relies on retail deposits as its primary source of funds. Management believes retail deposits reduce the effects of interest rate fluctuations because they generally represent a more stable source of funds. As part of its interest rate risk management strategy, the Company promotes transaction accounts and certificates of deposit with longer terms to maturity. Except for immediate short-term cash needs, and depending on the current interest rate environment, FHLB advances will have maturities of long or short term. FRB borrowings have short term maturities. For additional information, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein.

A number of measures are utilized to monitor and manage interest rate risk, including simulation modeling and traditional interest rate gap analysis. While both methods provide an indication of risk for a given change in interest rates, the simulation model is primarily used to assess the impact on earnings changes in interest rates may produce. Key assumptions in the model include cash flows and maturities of financial instruments, changes in market conditions, loan volumes and pricing, deposit sensitivity, consumer preferences and management's capital leverage plans. These assumptions are inherently uncertain; therefore, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results may significantly differ from simulated results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and specific strategies among other factors.

The following tables show the approximate percentage change in net interest income as of March 31, 2014 over a 24-month period under several rate scenarios.

Change in interest rates	Percent change in net interest income (12 months)	Percent change in net interest income (24 months)
Up 300 basis points	(2.0)% (2.5)%	6.5% (1.1)%



Up 200 basis  
points

Base case	-	0.3%
-----------	---	------

Down 100  
basis points

(1)	(1.0)%	(3.8)%
-----	--------	--------

(1) The current federal funds rate is 0.25%. No rates in this model are allowed to go below zero and therefore a down 200 and 300 basis point scenario would not be plausible.

Our balance sheet continues to be slightly asset sensitive, meaning that interest-earning assets reprice faster than interest-bearing liabilities in a given period. However, due to a number of loans in our loan portfolio with interest rate floors, our net interest income will be negatively impacted in a rising interest rate environment until such time as the current rate exceeds these interest rate floors. Conversely, in a falling interest rate environment these interest rate floors will assist in maintaining our net interest income. We attempt to limit our interest rate risk through managing the repricing characteristics of our assets and liabilities.

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

The following table shows the Company's financial instruments that are sensitive to changes in interest rates, categorized by expected maturity, and the instruments' fair values at March 31, 2014. Market risk sensitive instruments are generally defined as on- and off-balance sheet derivatives and other financial instruments.

	Average Rate	Within 1 Year	After 1 - 3 Years	After 3 - 5 Years	After 5 - 10 Years	Beyond 10 Years	Total
Interest-Sensitive Assets:							
(Dollars in thousands)							
Loans receivable	4.61%	\$ 76,149	\$ 75,384	\$ 146,150	\$ 146,163	\$ 89,642	\$ 533,488
Mortgage-backed securities	2.01	4,202	5,585	44,403	24,486	-	78,676
Investments and other interest-earning assets	0.78	78,335	19,246	13,198	1,255	-	112,034
FHLB stock	0.08	1,348	2,698	2,698	-	-	6,744
Total assets		\$ 160,034	\$ 102,913	\$ 206,449	\$ 171,904	\$ 89,642	\$ 730,942

Interest-Sensitive Liabilities:							
Interest checking	0.07	\$ 20,909	\$ 41,817	\$ 41,817	\$ -	\$ -	\$ 104,543
Savings accounts	0.10	13,340	26,681	26,681	-	-	66,702
Money market accounts	0.12	45,587	91,173	91,173	-	-	227,933
Certificate accounts	0.67	112,892	27,016	14,523	7,792	30	162,253
FHLB advances	-	-	-	-	-	-	-
FRB borrowings	-	-	-	-	-	-	-
Subordinated debentures	1.59	-	-	-	-	22,681	22,681
Obligations under capital lease	7.16	85	189	218	702	1,167	2,361
Total liabilities		192,813	186,876	174,412	8,494	23,878	586,473
Interest sensitivity gap		(32,779)	(83,963)	32,037	163,410	65,764	\$ 144,469
Cumulative interest sensitivity gap		\$ (32,779)	\$ (116,742)	\$ (84,705)	\$ 78,705	\$ 144,469	
Off-Balance Sheet Items:							

Commitments to									
extend credit	-	\$	8,112	\$	-	\$	-	\$	8,112
Unused lines of credit	-	\$	85,113	\$	-	\$	-	\$	85,113

Item 8. Financial Statements and Supplementary Data

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

Consolidated Financial Statements for the Years Ended March 31, 2014, 2013 and 2012  
Report of Independent Registered Public Accounting Firm

TABLE OF CONTENTS

	Page
Report of Independent Registered Public Accounting Firm – Deloitte & Touche LLP	71
Consolidated Balance Sheets as of March 31, 2014 and 2013	72
Consolidated Statements of Operations for the Years Ended March 31, 2014, 2013 and 2012	73
Consolidated Statements of Comprehensive Income (Loss) for the Years Ended March 31, 2014, 2013 and 2012	74
Consolidated Statements of Equity for the Years Ended March 31, 2014, 2013 and 2012	75
Consolidated Statements of Cash Flows for the Years Ended March 31, 2014, 2013 and 2012	76
Notes to Consolidated Financial Statements	77

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Riverview Bancorp, Inc.  
Vancouver, Washington

We have audited the accompanying consolidated balance sheets of Riverview Bancorp, Inc. and subsidiary (the "Company") as of March 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended March 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Riverview Bancorp, Inc. and subsidiary as of March 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/Deloitte & Touche LLP

Portland, Oregon  
June 13, 2014

## RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2014 AND 2013

(In thousands, except share and per share data)	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents (including interest-earning accounts of \$51,715 and \$100,093)	\$68,577	\$115,415
Certificates of deposit held for investment	36,925	44,635
Loans held for sale	1,024	831
Investment securities available for sale, at fair value (amortized cost of \$23,866 and \$7,766)	23,394	6,216
Mortgage-backed securities held to maturity, at amortized cost (fair value of \$104 and \$129)	101	125
Mortgage-backed securities available for sale, at fair value (amortized cost of \$79,083 and \$416)	78,575	431
Loans receivable (net of allowance for loan losses of \$12,551 and \$15,643)	520,937	520,369
Real estate owned	7,703	15,638
Prepaid expenses and other assets	3,197	3,063
Accrued interest receivable	1,836	1,747
Federal Home Loan Bank stock, at cost	6,744	7,154
Premises and equipment, net	16,417	17,693
Deferred income taxes, net	15,433	522
Mortgage servicing rights, net	369	388
Goodwill	25,572	25,572
Core deposit intangible, net	26	66
Bank owned life insurance	17,691	17,138
<b>TOTAL ASSETS</b>	<b>\$824,521</b>	<b>\$777,003</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Deposit accounts	\$690,066	\$663,806
Accrued expenses and other liabilities	10,497	8,006
Advanced payments by borrowers for taxes and insurance	467	1,025
Junior subordinated debentures	22,681	22,681
Capital lease obligations	2,361	2,440
<b>Total liabilities</b>	<b>726,072</b>	<b>697,958</b>
<b>COMMITMENTS AND CONTINGENCIES (See Note 19)</b>		
<b>EQUITY:</b>		
Shareholders' equity		
Serial preferred stock, \$.01 par value; 250,000 authorized, issued and outstanding: none	-	-
Common stock, \$.01 par value; 50,000,000 authorized		
March 31, 2014 – 22,471,890 issued and outstanding	225	225
March 31, 2013 – 22,471,890 issued and outstanding		
Additional paid-in capital	65,195	65,551
Retained earnings	33,592	14,169
Unearned shares issued to employee stock ownership trust	(387 )	(490 )
Accumulated other comprehensive loss	(647 )	(1,013 )

Total shareholders' equity	97,978	78,442
Noncontrolling interest	471	603
Total equity	98,449	79,045
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$824,521</b>	<b>\$777,003</b>

See notes to consolidated financial statements.

## RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS  
YEARS ENDED MARCH 31, 2014, 2013 AND 2012

(Dollars in thousands, except share data)	2014	2013	2012
<b>INTEREST AND DIVIDEND INCOME:</b>			
Interest and fees on loans receivable	\$ 25,423	\$ 32,041	\$ 38,894
Interest on investment securities – taxable	271	276	145
Interest on investment securities – non taxable	-	16	42
Interest on mortgage-backed securities	424	25	51
Other interest and dividends	686	574	400
Total interest and dividend income	26,804	32,932	39,532
<b>INTEREST EXPENSE:</b>			
Interest on deposits	1,973	2,667	4,357
Interest on borrowings	595	818	1,508
Total interest expense	2,568	3,485	5,865
Net interest income	24,236	29,447	33,667
Less provision for (recapture of) loan losses	(3,700)	900	29,350
Net interest income after provision for (recapture of) loan losses	27,936	28,547	4,317
<b>NON-INTEREST INCOME:</b>			
Fees and service charges	4,258	4,695	3,996
Asset management fees	2,630	2,172	2,367
Net gain on sale of loans held for sale	667	1,386	160
Bank owned life insurance	553	585	601
Other	259	35	(297)
Total non-interest income	8,367	8,873	6,827
<b>NON-INTEREST EXPENSE:</b>			
Salaries and employee benefits	15,755	15,325	15,889
Occupancy and depreciation	4,811	4,970	4,793
Data processing	2,058	1,420	1,421
Amortization of core deposit intangible	40	71	82
Advertising and marketing expense	726	834	998
FDIC insurance premium	1,487	1,532	1,136
State and local taxes	462	547	549
Telecommunications	304	384	434
Professional fees	1,290	1,456	1,254
Real estate owned expenses	2,765	5,781	5,097
Other	2,263	2,438	2,770
Total non-interest expense	31,961	34,758	34,423
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>4,342</b>	<b>2,662</b>	<b>(23,279)</b>
<b>PROVISION (BENEFIT) FOR INCOME TAXES</b>	<b>(15,081)</b>	<b>29</b>	<b>8,378</b>
<b>NET INCOME (LOSS)</b>	<b>\$ 19,423</b>	<b>\$ 2,633</b>	<b>\$ (31,657)</b>
<b>Earnings (loss) per common share:</b>			
Basic	\$ 0.87	\$ 0.12	\$ (1.42)
Diluted	0.87	0.12	(1.42)
<b>Weighted average number of shares outstanding:</b>			



Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

Basic	22,367,174	22,342,541	22,317,933
Diluted	22,369,175	22,342,541	22,317,933

See notes to consolidated financial statements.

## RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
YEARS ENDED MARCH 31, 2014, 2013 AND 2012

(Dollars in thousands, except share data)	2014	2013	2012
Net income (loss)	\$ 19,423	\$ 2,633	\$ (31,657)
Other comprehensive income (loss): (1)			
Unrealized holding gain on securities, net	555	239	372
Income tax expense related to securities unrealized holding gain	(189)	(81)	(126)
Noncontrolling interest	81	59	79
Total comprehensive income (loss)	\$ 19,870	\$ 2,850	\$ (31,332)

(1) There were no reclassifications out of other comprehensive income (loss) for the years ended March 31, 2014, 2013 and 2012.

See notes to consolidated financial statements.

## RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EQUITY  
YEARS ENDED MARCH 31, 2014, 2013 AND 2012

(In thousands, except share data)	Common Stock		Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to Employee Stock Ownership Trust	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
	Shares	Amount						
Balance April 1, 2011	22,471,890	\$ 225	\$ 65,639	\$ 43,193	\$(696)	\$(1,417)	465	\$ 107,409
Net loss	-	-	-	(31,657)	-	-	-	(31,657)
Stock option expense	-	-	12	-	-	-	-	12
Earned ESOP shares	-	-	(41)	-	103	-	-	62
Unrealized holding gain on securities	-	-	-	-	-	246	-	246
Noncontrolling interest	-	-	-	-	-	-	79	79
Balance March 31, 2012	22,471,890	225	65,610	11,536	(593)	(1,171)	544	76,151
Net income	-	-	-	2,633	-	-	-	2,633
Stock option expense	-	-	2	-	-	-	-	2
Earned ESOP shares	-	-	(61)	-	103	-	-	42
Unrealized holding gain on securities	-	-	-	-	-	158	-	158
Noncontrolling interest	-	-	-	-	-	-	59	59
Balance March 31, 2013	22,471,890	225	65,551	14,169	(490)	(1,013)	603	79,045
Net income	-	-	-	19,423	-	-	-	19,423
Purchase of subsidiary shares from noncontrolling	-	-	(399)	-	-	-	(213)	(612)

interest								
Stock option expense	-	-	78	-	-	-	-	78
Earned ESOP shares	-	-	(35)	-	103	-	-	68
Unrealized holding gain on securities	-	-	-	-	-	366	-	366
Noncontrolling interest	-	-	-	-	-	-	81	81
Balance March 31, 2014	22,471,890 \$	225 \$	65,195 \$	33,592 \$	(387)\$	(647)\$	471 \$	98,449

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED MARCH 31, 2014, 2013 AND 2012

(In thousands)	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 19,423	\$ 2,633	\$ (31,657)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization	1,898	1,877	2,013
Mortgage servicing rights valuation adjustment	1	-	(1)
Provision for (recapture of) loan losses	(3,700)	900	29,350
Provision (benefit) for deferred income taxes	(15,100)	-	8,536
Noncash expense related to ESOP	68	42	62
Increase (decrease) in deferred loan origination fees, net of amortization	102	(333)	(76)
Origination of loans held for sale	(24,413)	(29,121)	(5,916)
Proceeds from sales of loans held for sale	24,718	29,484	5,682
Stock based compensation	78	2	12
Writedown of real estate owned	2,056	4,974	4,238
Net loss (gain) on loans held for sale, sale and transfer of real estate owned, sale of investment and mortgage-backed securities and premises and equipment	(640)	(1,056)	400
Income from bank owned life insurance	(553)	(585)	(601)
Changes in assets and liabilities:			
Prepaid expenses and other assets	45	2,963	(627)
Accrued interest receivable	(89)	411	365
Accrued expenses and other liabilities	2,637	(1,189)	222
Net cash provided by operating activities	6,531	11,002	12,002
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Loan repayments (originations), net	24,044	102,784	(26,482)
Purchases of loans receivable	(22,082)	-	-
Proceeds from sale of loans held for investment	-	31,394	-
Proceeds from call, maturity, or sale of investment securities available for sale	3,000	5,000	5,000
Principal repayments on investment securities available for sale	847	357	392
Purchase of investment securities available for sale	(19,948)	(5,000)	(5,000)
Principal repayments on mortgage-backed securities available for sale	2,669	524	789
Principal repayments on mortgage-backed securities held to maturity	24	46	19
Principal repayments on investment securities held to maturity	-	493	13
Purchase of mortgage-backed securities available for sale	(81,566)	-	-

Purchase of premises and equipment and capitalized software	(835)	(2,141)	(2,578)
(Purchase) redemption of certificates of deposit held for investment, net	7,710	(3,162)	(26,573)
Proceeds from redemption of Federal Home Loan Bank stock	410	196	-
Capital expenditures on real estate owned	-	(72)	(207)
Proceeds from sale of real estate owned and premises and equipment	7,347	8,098	9,275
Net cash provided by (used in) investing activities	(78,380)	138,517	(45,352)

#### CASH FLOWS FROM FINANCING ACTIVITIES:

Net change in deposit accounts	26,260	(80,649)	27,925
Purchase of subsidiary shares from noncontrolling interest	(612)	-	-
Proceeds from borrowings	3,000	9,000	5,000
Repayment of borrowings	(3,000)	(9,000)	(5,000)
Principal payments under capital lease obligation	(79)	(73)	(54)
Net increase (decrease) in advance payments by borrowers	(558)	225	120
Net cash provided by (used in) financing activities	25,011	(80,497)	27,991

#### NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	(46,838)	69,022	(5,359)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	115,415	46,393	51,752
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 68,577	\$ 115,415	\$ 46,393

#### SUPPLEMENTAL DISCLOSURES:

Cash paid during the year for:

Interest	\$ 1,974	\$ 2,689	\$ 4,400
Income taxes	31	4	830

#### NONCASH INVESTING AND FINANCING ACTIVITIES:

Transfer of loans to real estate owned	\$ 6,331	\$ 14,075	\$ 6,843
Transfer of real estate owned to loans	4,946	3,859	1,859
Fair value adjustment to securities available for sale	555	239	372
Income tax effect related to fair value adjustment	(189)	(81)	(126)

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED MARCH 31, 2014, 2013 and 2012

---

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

The Company has also established two subsidiary grantor trusts in connection with the issuance of trust preferred securities (see Note 11). In accordance with accounting standards, the accounts and transactions of the trusts are not included in the accompanying consolidated financial statements.

Nature of Operations – The Bank is an eighteen branch community-oriented financial institution operating in rural and suburban communities in southwest Washington State and Multnomah and Marion counties of Oregon. The Bank is engaged primarily in the business of attracting deposits from the general public and using such funds, together with other borrowings, to invest in various commercial business, commercial real estate, multi-family real estate, real estate construction, residential real estate and consumer loans.

Use of Estimates in the Preparation of Financial Statements – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or “GAAP”), requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of related revenue and expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include amounts on hand, due from banks and interest-earning deposits in other banks. Cash and cash equivalents have a maturity of 90 days or less at the time of purchase.

Certificates of Deposit Held for Investment – Certificates of deposit held for investments include amounts invested with financial institutions for a stated interest rate and maturity date. Early withdraw penalties apply; however, the Company plans to hold these investments to maturity.

Loans Held for Sale – The Company identifies loans held for sale at the time of origination and such loans are carried at the lower of aggregate cost or net realizable value. Market values are derived from available market quotations for comparable pools of mortgage loans. Adjustments for unrealized losses, if any, are charged to income.

Gains or losses on sales of loans held for sale are recognized at the time of sale and are determined by the difference between the net sales proceeds and the allocated basis of these loans sold. The Company capitalizes mortgage servicing rights (“MSRs”) acquired through either the purchase of MSRs, the sale of originated mortgage loans or the securitization of mortgage loans with servicing rights retained. Upon sale of mortgage loans held for sale, the total cost of the loans designated for sale is allocated to mortgage loans with and without MSRs based on their relative fair values. The MSRs are included as a component of gain on sale of loans. The MSRs are amortized in proportion to and over the estimated period of the net servicing income and such amortization is reflected as a component of loan servicing income.

Securities – Investment securities are classified as held to maturity when the Company has the ability and positive intent to hold such securities to maturity. Investment securities held to maturity are carried at amortized cost. Unrealized losses due to fluctuations in fair value are recognized when it is determined that a credit-related other than temporary decline in value has occurred. Investment securities bought and held principally for the purpose of sale in the near term are classified as trading securities. Securities that the Company intends to hold for an indefinite period, but not necessarily to maturity are classified as available for sale. Such securities may be sold to implement the Company’s asset/liability management strategies and in response to changes in interest rates and similar factors. Securities available for sale are reported at fair value. Unrealized gains and losses, net of the related deferred tax effect, are reported as a net amount in a separate component of shareholders’ equity entitled “accumulated other comprehensive income (loss).” Realized gains and losses on securities available for sale, determined using the specific identification method, are included in earnings.



Amortization of premiums and accretion of discounts are recognized in interest income over the period to maturity or expected call, if sooner.

The Company analyzes investment securities for other than temporary impairment (“OTTI”) on a quarterly basis. OTTI is separated into a credit and noncredit component. Noncredit component losses are recorded in other comprehensive income (loss) when the Company a) does not intend to sell the security or b) is not more likely than not to have to sell the security prior to the security’s anticipated recovery. Credit component losses are reported in non-interest income.

Loans – Loans are stated at the amount of unpaid principal, reduced by deferred loan origination fees and an allowance for loan losses. Interest on loans is accrued daily based on the principal amount outstanding.

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. 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.

Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized as an adjustment of the yield of the related loan.

Allowance for Loan Losses – The allowance for loan losses is maintained at a level sufficient to provide for probable loan losses based on evaluating known and inherent risks in the loan portfolio. The allowance is provided based upon management’s 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 collectibility may not be assured. The detailed analysis includes techniques to estimate the fair value of loan collateral and the existence of potential alternative sources of repayment. The allowance consists of specific, general and unallocated components. The specific component relates to loans that are considered impaired. For such loans that are classified as impaired, an allowance is established when the net realizable value of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. Such factors include uncertainties in economic conditions, uncertainties in identifying triggering events that directly correlate to subsequent loss rates, changes in appraised value of underlying collateral, risk factors that have not yet manifested themselves in loss allocation factors and historical loss experience data that may not precisely correspond to the current portfolio or economic conditions. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The appropriate allowance level is estimated based upon factors and trends identified by management at the time the consolidated financial statements are prepared.

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

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

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 repayment potentials are considered 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.

A provision for loan losses is charged against income and is added to the allowance for loan losses based on regular assessments of the loan portfolio. The allowance for loan losses is allocated to certain loan categories based on the relative risk characteristics, asset classifications and actual loss experience of the loan portfolio. While management has allocated the allowance for loan losses to various loan portfolio segments, the allowance is general in nature and is available for the loan portfolio in its entirety.

**Allowance for Unfunded Loan Commitments** – The allowance for unfunded loan commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. The allowance for unfunded loan commitments is included in other liabilities on the consolidated balance sheets, with changes to the balance charged against non-interest expense.

**Real Estate Owned (“REO”)** – REO consists of properties acquired through foreclosure. Specific charge-offs are taken based upon detailed analysis of the fair value of collateral on the underlying loans on which the Company is in the process of foreclosing. Such collateral is transferred into REO at the fair value less estimated costs of disposal. Subsequently, the Company performs an evaluation of the properties and creates a valuation allowance with an offsetting charge to real estate owned expenses for any declines in value. The amounts the Company will ultimately recover from REO may differ from the amounts used in arriving at the net carrying value of these assets because of future market factors beyond the Company's control or because of changes in the Company's strategy for the sale of the property.

**Federal Home Loan Bank Stock** – The Bank, as a member of Federal Home Loan Bank of Seattle (“FHLB”), is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its outstanding home loans or 5% of advances from the FHLB. The Company views its investment in FHLB stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate redemption of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate redemption is influenced by criteria such as: 1) the significance of the decline in net assets of the FHLB

as compared to the capital stock amount and length of time a decline has persisted; 2) impact of legislative and regulatory changes on the FHLB and 3) the liquidity position of the FHLB. The Company evaluated its investment in FHLB stock for OTTI, consistent with its accounting policy. Based on the Company's evaluation of the underlying investment, including the long-term nature of the investment, the liquidity position of the FHLB, the actions being taken by the FHLB to address its regulatory situation and the Company's intent and ability to hold the investment for a period of time sufficient to be able to redeem its investment at par value, the Company did not recognize an OTTI loss on its FHLB stock. Further, in September 2012, the Federal Housing Finance Agency ("FHFA") upgraded the FHLB's capital classification to "adequately capitalized" and granted the FHLB authority to repurchase up to \$25 million of excess capital stock per quarter at par value, provided they receive a non-objection for each quarter's repurchase from the FHFA.

Premises and Equipment – Premises and equipment are stated at cost less accumulated depreciation. Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements, whichever is less. Gains or losses on dispositions are reflected in earnings. Depreciation is generally computed on the straight-line method over the following estimated useful lives: building and improvements – up to 45 years; furniture and equipment – three to twenty years; and leasehold improvements – fifteen to twenty-five years. The cost of maintenance and repairs is charged to expense as incurred. Assets are reviewed for impairment when events indicate their carrying value may not be recoverable. If management determines impairment exists the asset is reduced by an offsetting charge to expense.

The capitalized lease, less accumulated amortization is included in premises and equipment. The capitalized lease is amortized on a straight-line basis over the lease term and the amortization is included in depreciation expense.

Mortgage Servicing Rights – Fees earned for servicing loans for the Federal Home Loan Mortgage Corporation (“FHLMC”) are reported as income when the related mortgage loan payments are collected. Loan servicing costs are charged to expense as incurred. MSR is the rights to service loans. Loan servicing includes collecting payments, remitting funds to investors, insurance companies and tax authorities, collecting delinquent payments, and foreclosing on properties when necessary.

The Company records its originated MSRs at fair value in accordance with accounting standards, which requires the Company to allocate the total cost of all mortgage loans sold to the MSRs and the loans (without the MSRs) based on their relative fair values if it is practicable to estimate those fair values. The Company stratifies its MSRs based on the predominant characteristics of the underlying financial assets including the coupon interest rate and the contractual maturity of the mortgage. An estimated fair value of MSRs is determined quarterly using a discounted cash flow model. The model estimates the present value of the future net cash flows of the servicing portfolio based on various factors, such as servicing costs, servicing income, expected prepayment speeds, discount rate, loan maturity and interest rate. The effect of changes in market interest rates on estimated rates of loan prepayments represents the predominant risk characteristic underlying the MSRs portfolio. The Company is amortizing the MSRs in proportion to and over the period of estimated net servicing income.

MSRs are reviewed quarterly for impairment based on their fair value. The fair value of the MSRs, for the purposes of impairment, is measured using a discounted cash flow analysis based on market adjusted discount rates, anticipated prepayment speeds, mortgage loan term and coupon rate. Market sources are used to determine prepayment speeds, ancillary income, servicing cost and pre-tax required yield. Impairment losses are recognized through a valuation allowance for each impaired stratum, with any associated provision recorded as a component of loan servicing income.

Goodwill – 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 performs an annual review in the third quarter of each year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired. The impairment test is performed in two phases. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, a second step must be performed. In the second step the implied fair value of the reporting unit is calculated. The implied fair value of goodwill is then compared 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. As of March 31, 2014, the Company had not recognized any impairment loss on the recorded goodwill.

Core Deposit Intangible – Core deposit intangibles are amortized to non-interest expense using an accelerated method (based on expected attrition and cash flows of core deposit accounts purchased) over ten years.

Advertising and Marketing Expense – Costs incurred for advertising, merchandising, market research, community investment and business development are classified as marketing expense and are expensed as incurred.

Income Taxes – Income taxes are accounted for using the asset and liability method. Under this method, a deferred tax asset or liability is determined based on the enacted tax rates which will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company's income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce the net carrying amount of deferred tax assets if it is determined to be more likely than not, that all or some portion of the potential deferred tax

asset will not be realized. The Company files a consolidated federal income tax return. The Bank provides for income taxes separately and remits to the Company amounts currently due.

Trust Assets – Assets held by RAMCorp in a fiduciary or agency capacity for trust customers are not included in the consolidated financial statements because such items are not assets of the Company. Assets totaling \$359.7 million and \$337.5 million were held in trust as of March 31, 2014 and 2013, respectively.

Earnings Per Share – The Company accounts for earnings per share in accordance with applicable accounting standards, which requires all companies whose capital structure includes dilutive potential common shares to make a dual presentation of basic and diluted earnings per share for all periods presented. Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period, excluding restricted stock and unallocated shares owned by the Company's Employee Stock Ownership Plan ("ESOP"). Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised and has been computed after giving consideration to the weighted average diluted effect of the Company's stock options.

Stock-Based Compensation – The Company accounts for stock based compensation in accordance with accounting guidance for stock compensation. The guidance requires measurement of the compensation cost for all stock-based awards based on the grant-date fair value and recognition of compensation cost over the service period of stock-based awards. The fair value of stock options is determined using the Black-Scholes valuation model.

Employee Stock Ownership Plan ("ESOP") – The Company sponsors a leveraged ESOP. As shares are released, compensation expense is recorded equal to the then current market price of the shares and the shares become available for earnings per share calculations. The Company records cash dividends on unallocated shares as a reduction of debt and accrued interest.

Business segments – The Company operates a single business segment. The financial information that is used by the chief operating decision maker in allocating resources and assessing performance is only provided for one reportable segment for years ended March 31, 2014, 2013 and 2012.

New Accounting Pronouncements – In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". This ASU requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. No new recurring disclosures are required. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and are to be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of ASU No. 2013-11 is not expected to have a material impact on the Company's consolidated financial statements.

In January 2014, the FASB issued 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.



## 2. RESTRICTED ASSETS

Regulations of the Board of Governors of the Federal Reserve System (“Federal Reserve Board”) require that the Bank maintain minimum reserve balances either on hand or on deposit with the Federal Reserve Bank of San Francisco (“FRB”), based on a percentage of deposits. The amounts of such balances as of March 31, 2014 and 2013 were \$765,000 and \$652,000, respectively.

## 3. INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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
March 31, 2013				
Trust preferred	\$ 2,766	\$ -	\$ (1,528 )	\$ 1,238
Agency securities	5,000	-	(22 )	4,978
Total	\$ 7,766	\$ -	\$ (1,550 )	\$ 6,216

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

	Amortized Cost	Estimated Fair Value
March 31, 2014		
Due in one year or less	\$ -	\$ -
Due after one year through five years	14,438	14,099
Due after five years through ten years	7,509	7,392
Due after ten years	1,919	1,903
Total	\$ 23,866	\$ 23,394

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
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 )

March 31, 2013

Trust preferred	\$ -	\$ -	\$ 1,238	\$ (1,528 )	\$ 1,238	\$ (1,528 )
Agency securities	4,978	(22 )	-	-	4,978	(22 )

Total	\$ 4,978	\$ (22 )	\$ 1,238	\$ (1,528 )	\$ 6,216	\$ (1,550 )
-------	----------	----------	----------	-------------	----------	-------------

At March 31, 2014, the Company had a single collateralized debt obligation which is secured by 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 issuers. Four of the issuers of trust preferred securities in this pool have defaulted (representing 51% of the remaining collateral, including excess collateral), and two other issuers are currently deferring interest payments (6% of the remaining collateral). The Company has estimated an expected default rate of 44% for its portion of this security. The expected default rate was estimated based primarily on an analysis of the financial condition of the underlying issuers. The Company estimates that a default rate of 68% 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 year ended March 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. The Company realized no gains or losses on sales of investment securities in the years ended March 31, 2014, 2013 or 2012.

Investment securities with an amortized cost of \$1.0 million and \$1.0 million and a fair value of \$975,000 and \$996,000 at March 31, 2014 and 2013, respectively, were pledged as collateral for government public funds held by the Bank.

#### 4. MORTGAGE-BACKED SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2014				
Mortgage-backed securities (1)	\$ 101	\$ 3	\$ -	\$ 104
March 31, 2013				
Mortgage-backed securities (1)	\$ 125	\$ 4	\$ -	\$ 129

(1) Comprised of Federal National Mortgage Association ("FNMA") and FHLMC

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

	Amortized Cost	Estimated Fair Value
March 31, 2014		
Due in one year or less	\$ 1	\$ 1
Due after one year through five years	-	-
Due after five years through ten years	81	82
Due after ten years	19	21
Total	\$ 101	\$ 104

Mortgage-backed securities held to maturity with an amortized cost of \$36,000 and \$53,000 and a fair value of \$37,000 and \$55,000 at March 31, 2014 and 2013, respectively, were pledged as collateral for governmental public funds.

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

March 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Real estate mortgage investment conduits (1)	\$ 7,218	\$ 9	\$ (77)	\$ 7,150
Mortgage-backed securities (2)	65,858	102	(547)	65,413
Other mortgage-backed securities (3)	6,007	18	(13)	6,012
Total	\$ 79,083	\$ 129	\$ (637)	\$ 78,575

March 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Real estate mortgage investment conduits	\$ 230	\$ 7	\$ -	\$ 237
Mortgage-backed securities (4)	186	8	-	194
<b>Total</b>	<b>\$ 416</b>	<b>\$ 15</b>	<b>\$ -</b>	<b>\$ 431</b>

(1) Comprised of FHLMC and FNMA

(2) Comprised of FHLMC, FNMA and Ginnie Mae (“GNMA”)

(3) Comprised of U.S. Small Business Administration (“SBA”) and Commercial Real Estate (“CRE”)

(4) Comprised of FHLMC and FNMA

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

March 31, 2014	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 4	\$ 4
Due after one year through five years	26	27
Due after five years through ten years	11,100	11,145
Due after ten years	67,953	67,399
<b>Total</b>	<b>\$ 79,083</b>	<b>\$ 78,575</b>

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

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2014						
Real estate mortgage investment conduits	\$ 4,996	\$ (77)	\$ -	\$ -	\$ 4,996	\$ (77)
Mortgage-backed securities (1)	49,177	(547)	-	-	49,177	(547)
Other mortgage-backed securities (2)	1,526	(13)	-	-	1,526	(13)
<b>Total</b>	<b>\$ 55,699</b>	<b>\$ (637)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 55,699</b>	<b>\$ (637)</b>

(1) Comprised of FHLMC and FNMA

(2) Comprised of SBA

There were no mortgage-backed securities that were temporarily impaired at March 31, 2013.

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.

Mortgage-backed securities available for sale with an amortized cost of \$1.7 million and \$416,000 and a fair value of \$1.7 million and \$431,000 at March 31, 2014 and 2013, respectively, were pledged as collateral for government public funds held by the Bank.

## 5. LOANS RECEIVABLE

Loans receivable at March 31, 2014 and 2013 are reported net of deferred loan fees totaling \$2.0 million. Loans receivable, excluding loans held for sale, consisted of the following (in thousands):

	March 31, 2014	March 31, 2013
Commercial and construction		
Commercial business	\$ 71,632	\$ 71,935
Other real estate mortgage	324,881	355,397
Real estate construction	19,482	9,675
Total commercial and construction	415,995	437,007
Consumer		
Real estate one-to-four family	93,007	97,140
Other installment	24,486	1,865
Total consumer	117,493	99,005
<b>Total loans</b>	<b>533,488</b>	<b>536,012</b>
Less:		
Allowance for loan losses	12,551	15,643
<b>Loans receivable, net</b>	<b>\$ 520,937</b>	<b>\$ 520,369</b>

The Company originates commercial business, commercial real estate, multi-family real estate, real estate construction, residential real estate and consumer loans. At March 31, 2014 and 2013, the Company had no loans to foreign domiciled businesses or foreign countries, or loans related to highly leveraged transactions. Substantially all of the mortgage loans in the Company's portfolio are secured by properties located in Washington and Oregon, and, accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio is susceptible to changes in the local economic conditions in these markets. 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 March 31, 2014, loans carried at \$335.4 million were pledged as collateral to the FHLB and FRB for borrowing arrangements.

Aggregate loans to officers and directors, all of which are current, consist of the following (in thousands):

	Year Ended March 31,		
	2014	2013	2012
Beginning balance	\$ 1,609	\$ 1,907	\$ 2,160
Originations	-	226	1
Principal repayments	(755)	(524)	(254)
Ending balance	\$ 854	\$ 1,609	\$ 1,907

## 6. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level sufficient to provide for probable loan losses based on evaluating known and inherent risks in the loan portfolio. The allowance is provided based upon 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.

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

March 31, 2014	Commercial Business	Commercial Real Estate	Land	Multi-Family	Real Estate Construction	Consumer	Unallocated	Total
Beginning balance	\$ 2,128	\$ 5,979	\$ 2,019	\$ 541	\$ 221	\$ 2,949	\$ 1,806	\$ 15,643
Provision for (recapture of) loan losses	95	(417)	(2,439)	(338)	173	(258)	(516)	(3,700)
Charge-offs	(340)	(316)	(90)	-	(11)	(349)	-	(1,106)
Recoveries	526	23	850	-	4	311	-	1,714
Ending balance	\$ 2,409	\$ 5,269	\$ 340	\$ 203	\$ 387	\$ 2,653	\$ 1,290	\$ 12,551

March 31,  
2013

Beginning balance	\$ 2,688	\$ 5,599	\$ 4,906	\$ 1,121	\$ 412	\$ 3,274	\$ 1,921	\$ 19,921
Provision for (recapture of) loan losses	928	1,865	(2,149)	(197)	(278)	846	(115)	900
Charge-offs	(1,606)	(1,494)	(1,753)	(622)	(141)	(1,310)	-	(6,926)
Recoveries	118	9	1,015	239	228	139	-	1,748
Ending balance	\$ 2,128	\$ 5,979	\$ 2,019	\$ 541	\$ 221	\$ 2,949	\$ 1,806	\$ 15,643

March 31,  
2012

Beginning balance	\$ 1,822	\$ 4,744	\$ 2,003	\$ 2,172	\$ 820	\$ 1,339	\$ 2,068	\$ 14,968
----------------------	----------	----------	----------	----------	--------	----------	----------	-----------

Provision for (recapture of) loan losses	3,638	3,681	13,692	2,126	1,690	4,670	(147)	29,350
Charge-offs	(2,801)	(2,826)	(10,892)	(3,177)	(2,101)	(2,750)	-	(24,547)
Recoveries	29	-	103	-	3	15	-	150
Ending balance	\$ 2,688	\$ 5,599	\$ 4,906	\$ 1,121	\$ 412	\$ 3,274	\$ 1,921	\$ 19,921

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):

March 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	\$ -	\$ 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

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

	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
March 31, 2013						
Commercial business	\$ -	\$ 2,128	\$ 2,128	\$ 679	\$ 71,256	\$ 71,935
Commercial real estate	536	5,443	5,979	19,466	278,225	297,691
Land	-	2,019	2,019	3,469	19,935	23,404
Multi-family	-	541	541	3,846	30,456	34,302
Real estate construction	-	221	221	175	9,500	9,675
Consumer	183	2,766	2,949	4,933	94,072	99,005
Unallocated	-	1,806	1,806	-	-	-
Total	\$ 719	\$ 14,924	\$ 15,643	\$ 32,568	\$ 503,444	\$ 536,012

Changes in the allowance for unfunded loan commitments were as follows (in thousands):

	Year Ended March 31,		
	2014	2013	2012
Beginning balance	\$ 229	\$ 217	\$ 166
Net change in allowance for unfunded loan commitments	65	12	51
Ending balance	\$ 294	\$ 229	\$ 217

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

	30-89 Days Past Due	Greater Than 90 Days (Non-Accrual)	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
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	\$-

March 31, 2013

Commercial business	\$ 336	\$ 1,349	\$ 1,685	\$ 70,250	\$ 71,935	\$-
---------------------	--------	----------	----------	-----------	-----------	-----

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

Commercial real estate	6,345	10,315	16,660	281,031	297,691	-
Land	-	3,267	3,267	20,137	23,404	-
Multi-family	-	2,968	2,968	31,334	34,302	-
Real estate construction	-	175	175	9,500	9,675	-
Consumer	2,654	3,059	5,713	93,292	99,005	-
Total	\$9,335	\$21,133	\$30,468	\$505,544	\$536,012	\$-

Interest income foregone on non-accrual loans was \$949,000, \$1.4 million and \$2.3 million for the years ended March 31, 2014, 2013 and 2012, respectively.

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):

	March 31, 2014		March 31, 2013	
	Weighted-Average Risk Grade	Classified Loans (2)	Weighted-Average Risk Grade	Classified Loans (2)
Commercial business	3.54	\$ 8,419	3.64	\$ 3,816
Commercial real estate	3.87	19,838	4.02	37,643
Land	3.88	800	4.57	4,306
Multi-family	3.81	2,028	3.68	3,846
Real estate construction	3.08	-	3.26	175

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

Consumer (1)	7.00	2,729	7.00	3,059
Total	3.82	\$ 33,814	3.96	\$ 52,845
Total loans risk rated	\$ 418,503		\$ 439,587	

(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.

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

March 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	\$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	-
Real estate construction	-	-	-	-	-
Consumer	2,596	1,413	4,009	4,639	142
Total	\$24,371	\$1,579	\$25,950	\$29,271	\$279

March 31, 2013	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	\$679	\$-	\$679	\$944	\$-
Commercial real estate	12,011	7,455	19,466	21,291	536
Land	3,469	-	3,469	4,359	-
Multi-family	3,846	-	3,846	4,802	-
Real estate construction	175	-	175	811	-
Consumer	3,090	1,843	4,933	5,799	183
Total	\$23,270	\$9,298	\$32,568	\$38,006	\$719

	Year ended March 31, 2014		Year ended March 31, 2013		Year ended March 31, 2012	
	Average Recorded Investment	Interest Recognized on Impaired Loans	Average Recorded Investment	Interest Recognized on Impaired Loans	Average Recorded Investment	Interest Recognized on Impaired Loans
Commercial business	\$ 1,150	\$ 43	\$ 3,986	\$ 98	\$ 6,400	\$ 316
Commercial real estate	19,451	472	20,705	388	17,102	919
Land	1,854	5	6,818	78	13,339	321
Multi-family	2,758	16	7,822	127	8,254	402
Real estate construction	69	-	2,365	-	6,700	159
Consumer	3,679	47	4,961	105	1,584	75
Total	\$ 28,961	\$ 583	\$ 46,657	\$ 796	\$ 53,379	\$ 2,192

Trouble debt restructurings (“TDR”) 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 twelve months ended March 31, 2014 and 2013 (dollars in thousands):

(Dollars in Thousands)	Number of Contracts	March 31, 2014		Number of Contracts	March 31, 2013	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial business	3	\$ 504	\$ 465	2	\$ 449	\$ 408
Commercial real estate (1)	4	6,295	6,210	5	9,022	8,603
Land (1)	-	-	-	2	1,193	918
Multi-family (1)	1	2,562	2,014	1	3,277	2,967
Consumer	4	573	561	2	1,971	1,671
Total	12	\$ 9,934	\$ 9,250	12	\$ 15,912	\$ 14,567

(1) Included within these amounts at March 31, 2013, is a \$5.0 million real estate construction loan restructured into one \$3.3 million multi-family, one \$875,000 commercial real estate and one \$800,000 land loan based upon collateral securing the restructured loans.

There were no TDRs that were recorded in the twelve months prior to March 31, 2014 that subsequently defaulted in the twelve months ended March 31, 2014. There was one TDR loan secured by a one-to-four family home that was recorded in the twelve months prior to March 31, 2013 that defaulted in the twelve months ended March 31, 2013. The loan had a pre-modification outstanding recorded investment of \$442,000 and the amount of the defaulted loan totaled \$441,000.

## 7. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following (in thousands):

	March 31,	
	2014	2013
Land	\$ 4,177	\$ 4,177
Buildings and improvements	13,925	13,921
Leasehold improvements	1,429	1,426
Furniture and equipment	10,533	10,732
Buildings under capitalized leases	2,715	2,715
Construction in progress	720	720
Total	33,499	33,691
Less accumulated depreciation and amortization	(17,082)	(15,998)
Premises and equipment, net	\$ 16,417	\$ 17,693

Depreciation expense was \$1.4 million, \$1.5 million and \$1.5 million for the years ended March 31, 2014, 2013 and 2012, respectively. The Company is obligated under various noncancellable lease agreements for land and buildings that require future minimum rental payments, exclusive of taxes and other charges.

During fiscal year 2006, the Company entered into a capital lease for the shell of the building constructed as the Company's operations center. The lease period is for twelve years with two six-year lease renewal options. For the years ended March 31, 2014, 2013 and 2012, the Company recorded \$113,000 in amortization expense. At March 31, 2014 and 2013, accumulated amortization for the capital lease totaled \$939,000 and \$827,000, respectively.

In March 2010, the Company sold two of its branch locations. The Company maintains a substantial continuing involvement in the locations through various non-cancellable operating leases that contain certain renewal options. The resulting gain on sale of \$2.1 million was deferred and is being amortized over the life of the respective leases. At March 31, 2014, the deferred gain was \$1.5 million and is included in accrued expenses and other liabilities in the accompanying Consolidated Balance Sheets.

The following is a schedule of future minimum lease payments under capital leases together with the present value of net minimum lease payments and the future minimum rental payments required under operating leases that have initial or noncancellable lease terms in excess of one year as of March 31, 2014 (in thousands):

Year Ending March 31:	Operating Lease	Capital Lease
2015	\$ 1,783	\$ 251
2016	1,595	251
2017	1,569	251
2018	1,441	251
2019	1,054	251
Thereafter	2,295	2,679
Total minimum lease payments	\$ 9,737	3,934
Less amount representing interest		(1,573 )
Present value of net minimum lease payments		\$ 2,361

Rent expense was \$1.8 million for the years ended March 31, 2014, 2013 and 2012, respectively.

#### 8. REAL ESTATE OWNED

The following table is a summary of the activity in REO for the periods indicated (in thousands):

	Year Ended March 31,		
	2014	2013	2012
Balance at beginning of year, net	\$ 15,638	\$ 18,731	\$ 27,590
Additions	6,564	14,207	7,050
Dispositions	(12,443 )	(12,326 )	(11,671 )
Writedowns	(2,056 )	(4,974 )	(4,238 )
Balance at end of year, net	\$ 7,703	\$ 15,638	\$ 18,731

REO expenses for the year ended March 31, 2014 consisted of write-downs on existing REO properties of \$2.1 million and operating expenses of \$709,000. Net losses on dispositions of REO totaled \$245,000 for the year ended March 31, 2014, and were included in other non-interest income in the accompanying Consolidated Statements of Operations. REO expenses for the year ended March 31, 2013 consisted of write-downs on existing REO properties of \$5.0 million, operating expenses of \$807,000 and net losses on dispositions of REO totaled \$384,000. REO expenses for the year ended March 31, 2012 consisted of write-downs on existing REO properties of \$4.2 million, operating expenses of \$859,000 and net losses on dispositions of REO of \$556,000.

#### 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, 2013 and determined that no impairment of 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 less than its carrying value and therefore the Company performed a step two analysis. After the step two analysis was completed, the Company determined the implied fair value of goodwill was greater than the carrying value on the Company's balance sheet and

no goodwill impairment existed; however, no assurance can be given that the Company's goodwill will not be written down in future periods.

An interim impairment test was not deemed necessary as of March 31, 2014, due to there not being a significant change in the reporting unit's assets and liabilities, the amount that the fair value of the reporting unit exceeded the carrying value as of the most recent valuation, and because the Company determined that, based on an analysis of events that have occurred and circumstances that have changed since the most recent valuation date, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is remote.

## 10. DEPOSIT ACCOUNTS

Deposit accounts consisted of the following (dollars in thousands):

Account Type	Weighted Average Rate (1)	March 31, 2014	Weighted Average Rate (1)	March 31, 2013
Non-interest-bearing	0.00%	\$ 128,635	0.00%	\$ 112,527
Interest checking	0.07	104,543	0.11	91,754
Money market	0.12	227,933	0.22	217,091
Savings accounts	0.10	66,702	0.15	54,316
Certificates of deposit	0.67	162,253	0.82	188,118
Total	0.22%	\$ 690,066	0.33%	\$ 663,806

(1) The weighted average rate is based on interest rates at the end of the year

Certificates of deposit in amounts of \$100,000 or more totaled \$90.2 million and \$108.0 million at March 31, 2014 and 2013, respectively.

Interest expense by deposit type was as follows (in thousands):

	Year Ended March 31,		
	2014	2013	2012
Interest checking	\$ 102	\$ 135	\$ 281
Money market	477	602	1,049
Savings accounts	87	92	124
Certificate of deposit	1,307	1,838	2,903
Total	\$ 1,973	\$ 2,667	\$ 4,357

## 11. JUNIOR SUBORDINATED DEBENTURES

At March 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 deferral period, distributions on the corresponding trust preferred securities will also be deferred and the Company may not pay cash dividends to the holders of shares of our common stock. 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. The Company continued with the interest deferral through March 31, 2014. As of March 31, 2014, the Company has deferred a total of \$3.7 million of interest payments. The accrual for these payments is included in accrued expenses and other liabilities on the Consolidated Balance Sheets and interest expense on the Consolidated Statements of Operations. During the deferral period, the Company is restricted from paying dividends on its common stock.

The Debentures issued by the Company to the grantor trusts, totaling \$22.7 million, are reflected in the consolidated balance sheets in the liabilities section, under the caption “junior subordinated debentures.” The common securities issued by the grantor trusts were purchased by the Company, and the Company’s investment in the common securities of \$681,000 at March 31, 2014 and 2013, 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 Operations.

The following table is a summary of the terms of the current Debentures at March 31, 2014 (dollars 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%	1.59%	3/2036
Riverview Bancorp Statutory Trust II	06/2007	15,464	Variable (2)	7.03%	1.58%	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. INCOME TAXES

Income tax provision (benefit) for the years ended March 31 consisted of the following (in thousands):

	2014	2013	2012
Current	\$ 19	\$ 29	\$ (158)
Deferred	(15,100)	-	8,536
Total	\$ (15,081)	\$ 29	\$ 8,378

The tax effect of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at March 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Deferred tax assets:		
Deferred compensation	\$ 105	\$ 120
Loan loss reserve	4,560	5,635
Accrued expenses	203	221
Accumulated depreciation	736	817
Deferred gain on sale	532	327
Net operating loss carryforwards	8,191	6,079
Net unrealized loss on securities available for sale	332	522
Impairment on investment security	150	233
REO expense	1,681	3,889
Non-compete agreement	80	93
Other	465	395
Valuation allowance for deferred tax assets	-	(16,181)

Total deferred tax asset	17,035	2,150
Deferred tax liabilities:		
FHLB stock dividend	(975)	(1,035)
Purchase accounting	(9)	(23)
Prepaid expense	(161)	(175)
Loan fees/costs	(454)	(395)
Other	(3)	-
Total deferred tax liability	(1,602)	(1,628)
Deferred tax asset, net	\$ 15,433	\$ 522



A reconciliation of the Company's effective income tax rate with the federal statutory tax rate for the years ended March 31 is as follows:

	2014		2013		2012	
Statutory federal income tax rate	34.0	%	34.0	%	34.0	%
State and local income tax rate	1.5		1.9		1.5	
ESOP market value adjustment	(0.3	)	0.8		0.1	
Interest income on municipal securities	-		(0.2	)	0.1	
Bank owned life insurance	(4.4	)	(7.6	)	0.9	
Valuation adjustment	(365.9	)	(23.9	)	(72.5	)
Other, net	(5.9	)	(3.9	)	(0.1	)
Effective federal income tax rate	(341.0	)%	1.1	%	(36.0	)%

There were no sales of securities for the years ended March 31, 2014, 2013 and 2012. The tax effects of certain tax benefits related to stock options are recorded directly to shareholders' equity.

The Bank's retained earnings at March 31, 2014 and 2013 included base year bad debt reserves, which amounted to \$2.2 million, for which no federal income tax liability has been recognized. The amount of unrecognized deferred tax liability at March 31, 2014 and 2013 was \$781,000. This represents the balance of bad debt reserves created for tax purposes as of December 31, 1987. These amounts are subject to recapture in the unlikely event that the Company's banking subsidiaries (1) make distributions in excess of current and accumulated earnings and profits, as calculated for federal tax purposes, (2) redeem their stock, or (3) liquidate. Management does not expect this temporary difference to reverse in the foreseeable future. At March 31, 2014, the Company had a deferred tax asset of \$7.8 million and \$346,000 for federal and state net operating loss carryforwards, respectively, which will expire in 2032 and 2034.

At March 31, 2014 and 2013, the Company had no unrecognized tax benefits or uncertain tax positions. In addition, the Company had no accrued interest or penalties as of March 31, 2014 or 2013. It is the Company's policy to recognize potential accrued interest and penalties as a component of income tax expense. The Company is subject to U.S. federal income tax and income tax of the State of Oregon. The years 2010 to 2013 remain open to examination for federal income taxes, and years 2009 to 2013 remain open to State examination.

The Company reversed its deferred tax asset valuation allowance as of March 31, 2014 due to management's determination that it was "more likely than not" that the Company's deferred tax assets would be realized. "More likely than not" is defined as greater than 50% probability of occurrence. A determination as to the ultimate realization of the deferred tax assets is dependent upon management's judgment and evaluation of both positive and negative evidence, forecasts of future taxable income, applicable tax planning strategies, and an assessment of current and future economic and business conditions. The determination resulted from consideration of both the positive and negative evidence available that can be objectively verified. Considering the guidance in paragraphs 21-23 of Accounting Standards Codification 740-10-30, forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. At March 31, 2014, the Company was in a cumulative loss position over a three year period which is considered a significant piece of negative evidence that is difficult to overcome. Accordingly, in its determination of deferred tax asset, the Company analyzed and evaluated the nature and timing of relevant facts and circumstances with respect to its cumulative loss.

Management considered the fact that the Company was in a cumulative profit position over a two year period, with seven consecutive profitable quarters as part of its evaluation of the Company's three year cumulative loss. Management also evaluated the unique and non-recurring loss evidence as an important consideration in its determination. While this loss occurred, the nature and timing of the components of the loss can be assessed as to

whether these losses represent a continuing condition. Management determined that the steps taken to strengthen its credit risk management process have addressed the conditions that existed when the loans were created and the losses were incurred. The outcome of this evaluation is an important factor in management's determination that positive evidence overcomes the existence of the cumulative loss in the recent past.

Positive considerations also evaluated by management include the reduction of the inherent risk in the loan portfolio as indicated by the reduction of classified loans and associated credit costs, significant reductions in REO properties which contributes to lower REO holding costs, the Company's profitable operating performance during the past two years, termination of regulatory agreements and orders, utilization of excess low yielding cash balances to purchase higher yielding investment securities and increase loans receivable balances, as well as the sustained improvement in the economic conditions at a national and local level.

As management determined that positive evidence outweighed the negative, financial forecasts and projections were also developed to assess the Company's capacity to realize the deferred tax assets. As a result of this analysis management concluded it was more likely than not that forecasted earnings performance would allow for the realization of the deferred tax assets in a timely manner.

As of March 31, 2013, management determined that a deferred tax asset valuation allowance of \$16.2 million was necessary, reducing its deferred tax assets to \$522,000 which represented the amount related to the Company's unrealized losses on its available for sale debt securities.

### 13. EMPLOYEE BENEFIT PLANS

**Retirement Plan - The Riverview Bancorp, Inc. Employees' Savings and Profit Sharing Plan (the "Plan")** is a defined contribution profit-sharing plan incorporating the provisions of Section 401(k) of the Internal Revenue Code. Company expenses related to the Plan for the years ended March 31, 2014, 2013 and 2012 were \$195,000, \$192,000 and \$401,000, respectively.

**Directors Deferred Compensation Plan - Directors** may elect to defer their monthly directors' fees until retirement with no income tax payable by the director until retirement benefits are received. Chairman, President, Executive and Senior Vice Presidents of the Company may also defer salary into this plan. This alternative is made available to them through a nonqualified deferred compensation plan. The Company accrues annual interest on the unfunded liability under the Directors Deferred Compensation Plan based upon a formula relating to gross revenues, which amounted to 3.18%, 4.15% and 4.51% for the years ended March 31, 2014, 2013 and 2012, respectively. The estimated liability under the plan is accrued as earned by the participant. At March 31, 2014 and 2013, the Company's aggregate liability under the plan was \$297,000 and \$339,000, respectively.

**Stock Option Plans - 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 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 year ended March 31, 2014, the Company granted 87,154 stock options. The weighted average fair value of stock options granted during the year ended March 31, 2014 was \$1.18. The Company did not grant stock options during the years ended March 31, 2013 and 2012.



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 %
Fiscal 2013	-	-	-	-
Fiscal 2012	-	-	-	-

As of March 31, 2014, unrecognized compensation cost related to nonvested stock options totaled \$27,000. The Company recognized pre-tax compensation expense related to stock options of \$78,000, \$2,000 and \$12,000 for the years ended March 31, 2014, 2013 and 2012, respectively.

The following table presents the activity related to options under all plans for the years indicated.

	2014		Year Ended March 31, 2013		2012	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance, beginning of period	407,500	\$ 9.05	440,500	\$ 8.87	468,700	\$ 9.00
Grants	87,154	2.78	-	-	-	-
Forfeited	-	-	(3,000 )	1.97	(28,200 )	11.17
Expired	(20,000 )	8.98	(30,000 )	7.00	-	-
Balance, end of period	474,654	\$ 7.91	407,500	\$ 9.05	440,500	\$ 8.87

Additional information regarding options outstanding as of March 31, 2014 is as follows:

Range of Exercise Price	Options Outstanding		Options Exercisable		
	Weighted Avg Remaining Contractual Life (years)	Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$1.97 - \$6.17	6.71	258,154	\$ 3.70	169,400	\$ 4.19
\$7.49 - \$9.51	4.22	2,500	8.12	2,500	8.12
\$10.10 - \$10.83	2.65	9,000	10.37	9,000	10.37
\$12.98 - \$14.52	2.05	205,000	13.09	205,000	13.09
	4.61	474,654	\$ 7.91	385,900	\$ 9.09

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

	Year Ended March 31, 2014	Year Ended March 31, 2013
Stock options fully vested and expected to vest:		

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

Number	469,896	407,100
Weighted average exercise price	\$ 7.96	\$ 9.06
Aggregate intrinsic value (1)	\$ 71,000	\$ 3,000
Weighted average contractual term of options (years)	4.57	4.34
Stock options fully vested and currently exercisable:		
Number	385,900	404,300
Weighted average exercise price	\$ 9.09	\$ 9.11
Aggregate intrinsic value (1)	\$ 16,000	\$ 2,000
Weighted average contractual term of options (years)	3.54	4.32

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

There were no stock options exercised for the years ended March 31, 2014, 2013 and 2012, respectively.

## 14. EMPLOYEE STOCK OWNERSHIP PLAN

The Company sponsors an ESOP that covers all employees with at least one year and 1,000 hours of service who are over the age of 21. Shares are released and allocated to participant accounts on December 31 of each year until 2017. ESOP compensation expense included in salaries and employee benefits was \$68,000, \$42,000 and \$62,000 for the years ended March 31, 2014, 2013 and 2012, respectively.

ESOP share activity is summarized in the following table:

	Fair Value of Unreleased Shares	Unreleased ESOP Shares	Allocated and Released Shares	Total
Balance, March 31, 2011	\$ 524,000	172,431	790,153	962,584
Allocation December 31, 2011		(24,633)	24,633	-
Balance, March 31, 2012	\$ 334,000	147,798	814,786	962,584
Allocation December 31, 2012		(24,633)	24,633	-
Balance, March 31, 2013	\$ 325,000	123,165	839,419	962,584
Allocation December 31, 2013		(24,633)	24,633	-
Balance, March 31, 2014	\$ 338,000	98,532	864,052	962,584

## 15. SHAREHOLDERS' EQUITY AND REGULATORY CAPITAL REQUIREMENTS

The Company's articles of incorporation authorize 250,000 shares of serial preferred stock. No preferred shares were issued or outstanding at March 31, 2014 or 2013.

The Bank is subject to various regulatory capital requirements administered by the Office of the Comptroller of the Currency ("OCC"). Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and tier I capital to risk-weighted assets, core capital to total assets and tangible capital to tangible assets (set forth in the table below). Management believes the Bank met all capital adequacy requirements to which it was subject to as of March 31, 2014.

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

As of March 31, 2014, the most recent notification from the OCC categorized the Bank as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” the Bank must maintain minimum total capital and tier I capital to risk weighted assets, core capital to total assets and tangible capital to tangible assets (set forth in the table below).

The Bank’s actual and required minimum capital amounts and ratios are as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		“Well Capitalized” Under Prompt Corrective Action	
	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



	Actual		For Capital Adequacy Purposes		“Well Capitalized” Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2013						
Total Capital:						%
(To Risk-Weighted Assets)	\$ 81,227	15.29%	\$ 42,493	8.0%	\$ 63,740	12.0(1)
Tier 1 Capital:						
(To Risk-Weighted Assets)	74,473	14.02	21,247	4.0	31,870	6.0
Tier 1 Capital (Leverage):						
(To Adjusted Tangible Assets)	74,473	9.99	29,823	4.0	67,102	9.0 (1)
Tangible Capital:						
(To Tangible Assets)	74,473	9.99	11,184	1.5	N/A	N/A

(1) The Bank agreed with the OCC to establishing higher minimum capital ratios and must 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”.

At periodic intervals, the OCC and the FDIC routinely examine the Bank’s financial condition and risk management processes as part of their legally prescribed oversight. Based on their examinations, these regulators can direct that the Company’s Consolidated Financial Statements be adjusted in accordance with their findings. A future examination by the OCC or the FDIC could include a review of certain transactions or other amounts reported in the Company’s 2014 Consolidated Financial Statements.

The Company did not repurchase any shares of common stock for the years ended March 31, 2014, 2013 or 2012.

## 16. 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 applicable to common stock by the weighted average number of common shares and common stock equivalents for items that are dilutive, net of shares assumed to be repurchased using the treasury stock method at the average share price for the Company’s common stock during the period. Common stock equivalents arise from assumed conversion of outstanding stock options. ESOP shares are not considered outstanding for EPS purposes until they are committed to be released. For the years ended March 31, 2014, 2013 and 2012, stock options for 439,000, 419,000 and 454,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive.

### Year Ended March 31,

(Dollars and share data in thousands, except per share data)

	2014	2013	2012 (1)
Basic EPS computation:			
Numerator-net income (loss)	\$ 19,423	\$ 2,633	\$ (31,657 )
Denominator-weighted average common shares outstanding	22,367	22,343	22,318
Basic EPS	\$ 0.87	\$ 0.12	\$ (1.42 )
Diluted EPS computation:			

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

Numerator-net income (loss)	\$ 19,423	\$ 2,633	\$ (31,657 )
Denominator-weighted average common shares outstanding	22,367	22,343	22,318
Effect of dilutive stock options	2	-	-
Weighted average common shares and common stock equivalents (1)	22,369	22,343	22,318
Diluted EPS	\$ 0.87	\$ 0.12	\$ (1.42 )

(1) For the year ended March 31, 2012 the Company recognized a net loss and therefore all outstanding stock options were excluded from the calculation of diluted earnings per share because they were antidilutive.

## 17. 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 tables present assets that are measured at fair value on a recurring basis (in thousands).

March 31, 2014	Fair value measurements using			
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment securities available for sale				
Trust preferred	\$ 1,903	\$ -	\$ -	\$ 1,903
Agency securities	21,491	-	21,491	-
Mortgage-backed securities available for sale				
Real estate mortgage investment conduits	7,150	-	7,150	-
FHLMC mortgage-backed securities	25,386	-	25,386	-
FNMA mortgage-backed securities	38,950	-	38,950	-
SBA mortgage-backed securities	3,932	-	3,932	-
GNMA mortgage-backed securities	1,077	-	1,077	-
CRE mortgage-backed securities	2,080	-	2,080	-
Total recurring assets measured at fair value	\$ 101,969	\$ -	\$ 100,066	\$ 1,903

March 31, 2013

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

Investment securities available for sale				
Trust preferred	\$ 1,238	\$ -	\$ -	\$ 1,238
Agency securities	4,978	-	4,978	-
Mortgage-backed securities available for sale				
Real estate mortgage investment conduits	237	-	237	-
FHLMC mortgage-backed securities	191	-	191	-
FNMA mortgage-backed securities	3	-	3	-
Total recurring assets measured at fair value	\$ 6,647	\$ -	\$ 5,409	\$ 1,238

The following table presents a reconciliation of assets that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended March 31, 2014 and 2013 (in thousands). There were no transfers of assets in to or out of Levels 1, 2, or 3 for the year ended March 31, 2014 and 2013.

	For the Year Ended March 31, 2014	For the Year Ended March 31, 2013
Beginning balance	\$ 1,238	\$ 1,166
Transfers in to Level 3	-	-
Included in earnings (1)	-	-
Included in other comprehensive income	665	72
Ending balance	\$ 1,903	\$ 1,238

(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 Company uses an independent pricing service to assist management in determining fair values of investment securities available-for-sale. This 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 single trust preferred pooled security 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 REO, which were marked down due to declines in their fair value of the underlying collateral for the year ended March 31, 2014. The following assets are measured at fair value on a nonrecurring basis (in thousands):

March 31, 2014	Fair Value	Fair value measurements at using		
		Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Loans measured for impairment	\$ 15,151	\$ -	\$ -	\$ 15,151
Real estate owned	8,206	-	-	8,206
Total nonrecurring assets measured at fair value	\$ 23,357	\$ -	\$ -	\$ 23,357

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

	Valuation technique	Significant unobservable inputs	Range
Loans measured for impairment	Appraised value	Adjustment for market conditions	0% - 25%
Real estate owned	Appraised value	Adjustment for market conditions	0% - 19%

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 1 – Summary of Significant Accounting Policies – 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.

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.



## 18. 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 (in thousands):

March 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
<b>Assets:</b>					
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
Mortgage-backed securities available for sale	78,575	-	78,575	-	78,575
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
<b>Liabilities:</b>					
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

March 31, 2013	Carry Value	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair Value
<b>Assets:</b>					
Cash	\$ 115,415	\$ 115,415	\$ -	\$ -	\$ 115,415
Certificates of deposit held for investment	44,635	-	45,078	-	45,078

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

Investment securities available for sale	6,216	-	4,978	1,238	6,216
Mortgage-backed securities held to maturity	125	-	129	-	129
Mortgage-backed securities available for sale	431	-	431	-	431
Loans receivable, net	520,369	-	-	495,312	495,312
Loans held for sale	831	-	831	-	831
Federal Home Loan Bank stock	7,154	-	7,154	-	7,154
<b>Liabilities:</b>					
Demand – savings deposits	475,688	-	475,688	-	475,688
Time deposits	188,118	-	189,289	-	189,289
Junior subordinated debentures	22,681	-	-	9,433	9,433

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 17 – Fair Value Measurements).

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.

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 Bank's off-balance-sheet instruments consist of non-fee producing, variable rate commitments, the Bank has determined they do not have a distinguishable fair value.

## 19. COMMITMENTS AND CONTINGENCIES

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. At March 31, 2014, the Company had outstanding commitments to extend credit totaling \$8.1 million, unused lines of credit totaling \$54.6 million and undisbursed construction loans totaling \$30.5 million.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those 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 as specified above, and is required in instances where the Bank deems necessary. At March 31, 2014 and 2013, standby letters of credit totaled \$771,000 and \$823,000, respectively.

In connection with certain asset sales, the Bank typically makes representation and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, the Bank may have an obligation to repurchase the assets or indemnify the purchaser against loss. As of March 31, 2014, loans under warranty totaled \$119.2 million, which substantially represents the unpaid principal balance of the Bank's loans serviced for FHLMC. The Bank believes that the potential for loss under these arrangements is remote. Accordingly, no contingent liability is recorded in the Consolidated Financial Statements. At March 31, 2014, the Company had firm commitments to sell \$1.5 million of residential loans to FHLMC. Typically, these agreements are short term fixed rate commitments and no material gain or loss is likely.

The Bank is a public depository and, accordingly, accepts deposit and other public funds belonging to, or held for the benefit of, Washington and Oregon states, political subdivisions thereof and, municipal corporations. In accordance with applicable state law, in the event of default of a participating bank, all other participating banks in the state collectively assure that no loss of funds are suffered by any public depositor. Generally, in the event of default by a public depository, the assessment attributable to all public depositories is allocated on a pro rata basis in proportion to the maximum liability of each depository as it existed on the date of loss. The Company has not incurred any losses related to public depository funds for the years ended March 31, 2014, 2013 and 2012.

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

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

## 20. RIVERVIEW BANCORP, INC. (PARENT COMPANY)

BALANCE SHEETS  
MARCH 31, 2014 AND 2013

(In thousands)	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents (including interest earning accounts of \$1,056 and \$952)	\$ 1,106	\$ 1,020
Investment in the Bank	120,897	102,280
Other assets	2,350	1,117
<b>TOTAL ASSETS</b>	<b>\$ 124,353</b>	<b>\$ 104,417</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accrued expenses and other liabilities	\$ 3,694	\$ 3,294
Borrowings	22,681	22,681
Shareholders' equity	97,978	78,442
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 124,353</b>	<b>\$ 104,417</b>

STATEMENTS OF OPERATIONS  
YEARS ENDED MARCH 31, 2014, 2013 AND 2012

(In thousands)	2014	2013	2012
<b>INCOME:</b>			
Interest on investment securities and other short-term investments	\$ 13	\$ 20	\$ 40
Interest on loan receivable from the Bank	42	50	59
Total income	55	70	99
<b>EXPENSE:</b>			
Management service fees paid to the Bank	143	143	142
Other expenses	459	685	3,624
Total expense	602	828	3,766
<b>LOSS BEFORE INCOME TAXES AND EQUITY</b>			
<b>IN UNDISTRIBUTED LOSS OF THE BANK</b>	(547)	(758)	(3,667)
<b>PROVISION (BENEFIT) FOR INCOME TAXES</b>	(1,365)	(258)	81
<b>INCOME (LOSS) OF PARENT COMPANY</b>	818	(500)	(3,748)
<b>EQUITY IN UNDISTRIBUTED INCOME (LOSS) OF THE BANK</b>	18,605	3,133	(27,909)
<b>NET INCOME (LOSS)</b>	<b>\$ 19,423</b>	<b>\$ 2,633</b>	<b>\$ (31,657)</b>

There were no items of other comprehensive income for the parent Company.

## RIVERVIEW BANCORP, INC. (PARENT COMPANY)

STATEMENTS OF CASH FLOWS  
YEARS ENDED MARCH 31, 2014, 2013 AND 2012

(In thousands)	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 19,423	\$ 2,633	\$ (31,657)
Adjustments to reconcile net income (loss) cash provided by (used in) operating activities:			
Equity in undistributed (earnings) loss of the Bank	(18,605)	(3,133)	27,909
Benefit for deferred income taxes	(1,364)	-	(15)
Writedown of real estate owned	-	-	1,997
Earned ESOP shares	68	42	62
Stock based compensation	78	2	12
Changes in assets and liabilities			
Other assets	131	577	114
Accrued expenses and other liabilities	355	695	1,382
Net cash provided by (used in) operating activities	86	816	(196)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sale of real estate owned	-	-	1,041
Additional investment in subsidiary	-	(2,700)	(2,000)
Net cash used in investing activities	-	(2,700)	(959)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	86	(1,884)	(1,155)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>			
	1,020	2,904	4,059
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>			
	\$ 1,106	\$ 1,020	\$ 2,904
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>			
Transfer of real estate owned	\$ -	\$ -	\$ 5,290

RIVERVIEW BANCORP, INC.  
SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED):

(Dollars in thousands, except share data)

Three Months Ended

	March 31	December 31	September 30	June 30
Fiscal 2014:				
Interest income	\$ 6,536	\$ 6,673	\$ 6,764	\$ 6,831
Interest expense	582	645	664	677
Net interest income	5,954	6,028	6,100	6,154
Provision for (recapture of) loan losses	(1,200)	-	-	(2,500)
Non-interest income	1,850	2,384	1,887	2,246
Non-interest expense	7,460	7,611	7,647	9,243
Income before income taxes	1,544	801	340	1,657
Provision (benefit) for income taxes	(15,097)	-	(1)	17
Net income	\$ 16,641	\$ 801	\$ 341	\$ 1,640
Basic earnings per share (1)	\$ 0.74	\$ 0.04	\$ 0.02	\$ 0.07
Diluted earnings per share (1)	\$ 0.74	\$ 0.04	\$ 0.02	\$ 0.07
Fiscal 2013:				
Interest income	\$ 6,905	\$ 8,136	\$ 8,648	\$ 9,243
Interest expense	700	752	861	1,172
Net interest income	6,205	7,384	7,787	8,071
Provision for (recapture of) loan losses	(3,600)	-	500	4,000
Non-interest income	2,032	2,087	2,314	2,440
Non-interest expense	10,236	8,434	7,812	8,276
Income (loss) before income taxes	1,601	1,037	1,789	(1,765)
Provision for income taxes	6	6	2	15
Net income (loss)	\$ 1,595	\$ 1,031	\$ 1,787	\$ (1,780)
Basic earnings (loss) per share (1)	\$ 0.07	\$ 0.05	\$ 0.08	\$ (0.08)
Diluted earnings (loss) per share (1)	\$ 0.07	\$ 0.05	\$ 0.08	\$ (0.08)

(1) Quarterly earnings per share may vary from annual earnings per share due to rounding.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable

Item 9A. Controls and Procedures



(a) Evaluation of Disclosure Controls and Procedures: We maintain a system of disclosure controls and procedures (as defined in Rule 13(a)-15(e) under the Securities Exchange Act (the "Exchange Act")) that is designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, summarized and reported accurately and within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate. An evaluation of the Company's disclosure controls and procedures 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 as of the end of the period covered by this report. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as in effect on March 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) to allow timely decisions regarding required disclosures, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all error and all 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 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 also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

(b) Changes in Internal Controls: There was no change in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

(c) Management's Annual Report on Internal Control Over Financial Reporting: The management of Riverview Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system has been designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of the company's published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The management of Riverview Bancorp, Inc. has assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2014. To make the assessment, we used the criteria for effective internal control over financial reporting described in Internal Control – Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we have concluded that, as of March 31, 2014, the Company's internal control over financial reporting were effective based on those criteria.

#### Item 9B. Other Information

There was no information to be disclosed by the Company in a report on Form 8-K during the fourth quarter of fiscal year 2014 that was not so disclosed.

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the section captioned "Proposal I - Election of Directors" contained in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders, and "Part I -- Business -- Personnel -- Executive Officers" of this Form 10-K, is incorporated herein by reference.

#### Section 16(a) Beneficial Ownership Reporting Compliance.

The information concerning compliance with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 by directors, officers and ten percent stockholders of the Company required by this item is incorporated herein by reference from the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders.

## Code of Ethics

In December 2003, the Board of Directors adopted the Officer and Director Code of Ethics. The code is applicable to each of the Company's officers, including the principal executive officer and senior financial officers, and requires individuals to maintain the highest standards of professional conduct. A copy of the Code of Ethics is available on the Company's website at [www.riverviewbank.com](http://www.riverviewbank.com).

## Audit Committee Matters and Audit Committee Financial Expert

The Company has a separately-designated standing Audit Committee, composed of Directors Gary R. Douglass, Edward R. Geiger, and Jerry C. Olson. Each member of the Audit Committee is "independent" as defined in the Nasdaq Stock Market Listing Standards. The Company's Board of Directors has Mr. Douglass, Audit Committee Chairman, as its financial expert, as defined in SEC's Regulation S-K.

## Nomination Procedures

There have been no material changes to the procedures by which shareholders may recommend nominees to the Company's Board of Directors.

## Item 11. Executive Compensation

The information set forth under the sections captioned "Executive Compensation" and "Directors' Compensation" under "Proposal I - Election of Directors" in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders (excluding the information contained under the heading "Personnel/Compensation Committee Report,") is incorporated herein by reference.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders is incorporated herein by reference.

Equity Compensation Plan Information. The following table summarizes share and exercise price information about the Company's equity compensation plan as of March 31, 2014.

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted-average price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (A)
Equity compensation plans approved by security holders:	(A)	(B)	(C)
2003 Stock Option Plan	412,154	7.76	-
1998 Stock Option Plan	62,500	8.85	-
Equity compensation plans not approved by security holders:	-	-	-
Total	474,654		-

## Item 13. Certain Relationships and Related Transactions, and Director Independence

The information set forth under the headings "Related Party Transactions" and "Director Independence" in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders is incorporated herein by reference.

## Item 14. Principal Accounting Fees and Services

The information set forth under the section captioned “Independent Auditor” in the Company’s Proxy Statement for the 2014 Annual Meeting of Stockholders (excluding the information contained under the heading of “Report of the Audit Committee”) is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a) 1. Financial Statements  
See "Part II –Item 8. Financial Statements and Supplementary Data."
2. Financial Statement Schedules  
All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.
3. 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 Bank and each of Patrick Sheaffer, Ronald A. Wysaske, and John A. Karas (2)
  - 10.2 Employee Severance Compensation Plan (3)
  - 10.3 Employee Stock Ownership Plan (4)
  - 10.4 1998 Stock Option Plan (5)
  - 10.5 2003 Stock Option Plan (6)
  - 10.6 Form of Incentive Stock Option Award Pursuant to 2003 Stock Option Plan (7)
  - 10.7 Form of Non-qualified Stock Option Award Pursuant to 2003 Stock Option Plan (7)
  - 11 Statement of recomputation of per share earnings (See Note 16 of the Notes to Consolidated Financial Statements contained herein.)
  - 21 Subsidiaries of Registrant (8)
  - 23 Consent of Independent Registered Public Accounting Firm
  - 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
  - 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
  - 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act
  - 101 The following materials from Riverview Bancorp Inc.'s Yearly Report on Form 10-K for the year ended March 31, 2014, formatted on Extensible Business Reporting Language (XBRL) (a) Consolidated Balance Sheets; (b) Consolidated Statements of Operations; (c) Consolidated Statements of Comprehensive Income (Loss); (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)

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-K

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, 2007, 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 Section 13 or 15(d) 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.

Date: June 13, 2014

By: /s/ Patrick Sheaffer  
Patrick Sheaffer  
Chairman of the Board and  
Chief Executive Officer  
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

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

By: /s/ Ronald A. Wyseske  
Ronald A. Wyseske  
President and Chief Operating Officer  
Director

Date: June 13, 2014

Date: June 13, 2014

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

By: /s/ Bess R. Wills  
Bess R. Wills  
Director

Date: June 13, 2014

Date: June 13, 2014

By: /s/ Gary R. Douglass  
Gary R. Douglass  
Director

By: /s/ Edward R. Geiger  
Edward R. Geiger  
Director

Date: June 13, 2014

Date: June 13, 2014

By: /s/ Michael D. Allen  
Michael D. Allen  
Director

By: /s/ Jerry C. Olson  
Jerry C. Olson  
Director

Date: June 13, 2014

Date: June 13, 2014

By: /s/ Gerald L. Nies  
Gerald L. Nies  
Director



Date: June 13, 2014

111

---

EXHIBIT INDEX

- Exhibit 23 Consent of Independent Registered Public Accounting Firm
- Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 101 The following materials from Riverview Bancorp, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2014, formatted in Extensible Business Reporting Language (XBRL): (a) Consolidated Balance Sheets; (b) Consolidated Statements of Operations; (c) Consolidated Statements of Comprehensive Income (Loss); (d) Consolidated Statements of Shareholders' Equity; (e) Consolidated Statements of Cash Flows; and (f) Notes to Consolidated Financial Statements