RIVERVIEW BANCORP INC
Form 10-Q
February 09, 2011
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2010

OR

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

For the transition period from _____ to _____

Commission File Number: 0-22957

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

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

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

Large accelerated filer ( )	Accelerated filer (X)
Non-accelerated filer ( )	Smaller reporting company ( )

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: Common Stock, $.01 par value per share, 22,471,890 shares outstanding as of February 4, 2011.

Form 10-Q

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
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Exhibit 31.1
Exhibit 31.2
Exhibit 32

Forward Looking Statements

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

The Company cautions readers not to place undue reliance on any forward-looking statements. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company. The Company does not undertake to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These risks could cause our actual results for fiscal 2011 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 operating and stock price performance.

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

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND MARCH 31, 2010

(In thousands, except share and per share data) (Unaudited)	December 31, 2010	March 31, 2010
ASSETS		
Cash (including interest-earning accounts of $27,548 and $3,384)	$ 35,900	$ 13,587
Certificates of deposit held for investment	17,141	-
Loans held for sale	581	255
Investment securities held to maturity, at amortized cost (fair value of $556 and $573)	505	517
Investment securities available for sale, at fair value (amortized cost of $8,514 and $8,706)	6,255	6,802
Mortgage-backed securities held to maturity, at amortized cost (fair value of $202 and $265)	194	259
Mortgage-backed securities available for sale, at fair value (amortized cost of $1,952 and $2,746)	2,007	2,828
Loans receivable (net of allowance for loan losses of $17,463 and $21,642)	660,075	712,837
Real estate and other personal property owned	30,704	13,325
Prepaid expenses and other assets	6,206	7,934
Accrued interest receivable	2,498	2,849
Federal Home Loan Bank stock, at cost	7,350	7,350
Premises and equipment, net	15,655	16,487
Deferred income taxes, net	11,307	11,177
Mortgage servicing rights, net	423	509
Goodwill	25,572	25,572
Core deposit intangible, net	242	314
Bank owned life insurance	15,802	15,351
TOTAL ASSETS	$ 838,417	$ 837,953
LIABILITIES AND EQUITY		
LIABILITIES:		
Deposit accounts	$ 696,749	$ 688,048
Accrued expenses and other liabilities	9,697	6,833
Advanced payments by borrowers for taxes and insurance	227	427
Federal Home Loan Bank advances	-	23,000
Federal Reserve Bank advances	-	10,000
Junior subordinated debentures	22,681	22,681
Capital lease obligations	2,578	2,610
Total liabilities	731,932	753,599

COMMITMENTS AND CONTINGENCIES (See Note 16)		
EQUITY:		
Shareholders' equity		
Serial preferred stock, $.01 par value; 250,000 authorized, issued and outstanding: none	-	-
Common stock, $.01 par value; 50,000,000 authorized		
December 31, 2010 – 22,471,890 issued and outstanding	225	109
March 31, 2010 – 10,923,773 issued and outstanding		
Additional paid-in capital	65,642	46,948
Retained earnings	42,339	38,878
Unearned shares issued to employee stock ownership trust	(722)	(799)
Accumulated other comprehensive loss	(1,454)	(1,202)
Total shareholders' equity	106,030	83,934
Noncontrolling interest	455	420
Total equity	106,485	84,354
TOTAL LIABILITIES AND EQUITY	$ 838,417	$ 837,953

See notes to consolidated financial statements.

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RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2010 AND 2009
(In thousands, except share and per share data) (Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
INTEREST INCOME:				
Interest and fees on loans receivable	$ 10,593	$ 11,376	$ 32,458	$ 34,725
Interest on investment securities – taxable	28	56	115	220
Interest on investment securities – non-taxable	14	26	43	89
Interest on mortgage-backed securities	21	32	70	107
Other interest and dividends	77	23	140	63
Total interest and dividend income	10,733	11,513	32,826	35,204
INTEREST EXPENSE:				
Interest on deposits	1,567	2,391	5,232	7,533
Interest on borrowings	359	396	1,119	1,352
Total interest expense	1,926	2,787	6,351	8,885
Net interest income	8,807	8,726	26,475	26,319
Less provision for loan losses	1,600	4,500	4,575	10,050
Net interest income after provision for loan losses	7,207	4,226	21,900	16,269
NON-INTEREST INCOME:				
Fees and service charges	955	1,121	3,131	3,516
Asset management fees	520	460	1,533	1,434
Net gain on sale of loans held for sale	96	152	339	712
Impairment of investment security	-	(456)	-	(915)
Bank owned life insurance	151	154	451	456
Other	142	91	696	217
Total non-interest income	1,864	1,522	6,150	5,420
NON-INTEREST EXPENSE:				
Salaries and employee benefits	4,090	3,741	12,115	11,305
Occupancy and depreciation	1,208	1,241	3,497	3,691
Data processing	274	228	774	705
Amortization of core deposit intangible	23	26	72	84
Advertising and marketing expense	187	212	577	522
FDIC insurance premium	402	378	1,240	1,518
State and local taxes	184	106	502	406
Telecommunications	105	107	317	336

Professional fees		311		292		958		926
Real estate owned expenses		897		797		1,183		1,378
Other		572		664		1,695		2,176
Total non-interest expense		8,253		7,792		22,930		23,047
INCOME (LOSS) BEFORE INCOME TAXES		818		(2,044)		5,120		(1,358)
PROVISION (BENEFIT) FOR INCOME TAXES		239		(758)		1,659		(617)
NET INCOME (LOSS)	$	579	$	(1,286)	$	3,461	$	(741)
Earnings (loss) per common share:								
Basic	$	0.03	$	(0.12)	$	0.20	$	(0.07)
Diluted		0.03		(0.12)		0.20		(0.07)
Weighted average number of shares outstanding:								
Basic		22,296,378		10,723,628		17,044,751		10,717,493
Diluted		22,297,043		10,723,628		17,044,751		10,717,493

See notes to consolidated financial statements.

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RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE NINE MONTHS ENDED DECEMBER 31, 2010 AND 2009

(In thousands, except share data) (Unaudited)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to Employee Stock Ownership Trust	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance April 1, 2009	10,923,773	$ 109	$ 46,866	$ 44,322	$ (902)	$ (1,732)	$ 364	$ 89,027
Stock based compensation expense	-	-	73	-	-	-	-	73
Earned ESOP shares	-	-	(19)	-	77	-	-	58
	10,923,773	109	46,920	44,322	(825)	(1,732)	364	89,158
Comprehensive loss:								
Net loss	-	-	-	(741)	-	-	-	(741)
Other comprehensive income, net of tax:								
Unrealized holding gain on securities available for sale	-	-	-	-	-	554	-	554
Noncontrolling interest	-	-	-	-	-	-	44	44
Total comprehensive loss	-	-	-	-	-	-	-	(143)
Balance December 31, 2009	10,923,773	$ 109	$ 46,920	$ 43,581	$ (825)	$ (1,178)	$ 408	89,015
Balance April 1, 2010	10,923,773	$ 109	$ 46,948	$ 38,878	$ (799)	$ (1,202)	$ 420	$ 84,354
Issuance of common stock (net)	11,548,117	116	18,653	-	-	-	-	18,769

Stock based compensation expense	-	-	73	-	-	-	-	73
Earned ESOP shares	-	-	(32)	-	77	-	-	45
	22,471,890	225	65,642	38,878	(722)	(1,202)	420	103,241
Comprehensive income:								
Net income	-	-	-	3,461	-	-	-	3,461
Other comprehensive income, net of tax:								
Unrealized holding loss on securities available for sale	-	-	-	-	-	(252)	-	(252)
Noncontrolling interest	-	-	-	-	-	-	35	35
Total comprehensive income	-	-	-	-	-	-	-	3,244
Balance December 31, 2010	22,471,890	$ 225	$ 65,642	$ 42,339	$ (722)	$ (1,454)	$ 455	$ 106,485

See notes to consolidated financial statements.

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RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2010 AND 2009

(In thousands) (Unaudited)	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 3,461	$ (741)
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,470	1,704
Provision for loan losses	4,575	10,050
Noncash expense related to ESOP	45	58
Increase (decrease) in deferred loan origination fees, net of amortization	(124)	68
Origination of loans held for sale	(10,711)	(24,360)
Proceeds from sales of loans held for sale	10,517	25,634
Stock based compensation expense	73	73
Writedown of real estate owned, net	628	894
Net (gain) loss on loans held for sale, sale of real estate owned, mortgage-backed securities, investment securities and premises and equipment	(713)	733
Income from bank owned life insurance	(451)	(456)
Changes in assets and liabilities:		
Prepaid expenses and other assets	1,614	(6,533)
Accrued interest receivable	351	415
Accrued expenses and other liabilities	3,018	(1,331)
Net cash provided by operating activities	13,753	6,208
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan repayments, net	27,173	39,348
Proceeds from call, maturity, or sale of investment securities available for sale	9,990	6,150
Principal repayments on investment securities available for sale	203	373
Principal repayments on investment securities held to maturity	12	12
Purchase of investment securities available for sale	(10,000)	(4,988)
Principal repayments on mortgage-backed securities available for sale	794	975
Principal repayments on mortgage-backed securities held to maturity	65	239
Purchase of certificates of deposit held for investment, net	(17,141)	-
Purchase of premises and equipment and capitalized software	(452)	(387)
Capitalized improvements related to real estate owned	(49)	(46)
Proceeds from sale of real estate owned and premises and equipment	3,727	3,710
Net cash provided by investing activities	14,322	45,386
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	8,701	9,504

Proceeds from issuance of common stock, net	18,769	-
Proceeds from borrowings	121,200	737,000
Repayment of borrowings	(154,200)	(801,550)
Principal payments under capital lease obligation	(32)	(29)
Net increase in advance payments by borrowers	(200)	(212)
Net cash used in financing activities	(5,762)	(55,287)
NET INCREASE (DECREASE) IN CASH	22,313	(3,693)
CASH, BEGINNING OF PERIOD	13,587	19,199
CASH, END OF PERIOD	$ 35,900	$ 15,506
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 5,343	$ 8,871
Income taxes	255	1,310
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of loans to real estate owned, net	$ 21,278	$ 13,806
Fair value adjustment to securities available for sale	(382)	894
Income tax effect related to fair value adjustment	130	(340)

See notes to consolidated financial statements.

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

1. BASIS OF PRESENTATION

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

The unaudited consolidated financial statements should be read in conjunction with the audited financial statements included in the Riverview Bancorp, Inc. Annual Report on Form 10-K for the year ended March 31, 2010 ("2010 Form 10-K"). The results of operations for the nine months ended December 31, 2010 are not necessarily indicative of the results, which may be expected for the fiscal year ending March 31, 2011. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. PRINCIPLES OF CONSOLIDATION

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

3. STOCK PLANS AND STOCK-BASED COMPENSATION

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

In July 2003, shareholders of the Company approved the adoption of the 2003 Stock Option Plan ("2003 Plan"). The 2003 Plan was effective July 2003 and will expire on the tenth anniversary of the effective date, unless terminated sooner by the Company's Board of Directors ("the Board"). Under the 2003 Plan, the Company may grant both incentive and non-qualified stock options to purchase up to 458,554 shares of its common stock to officers, directors and employees. Each option granted under the 2003 Plan has an exercise price equal to the fair market value of the Company's common stock on the date of grant, a maximum term of ten years and a vesting period from zero to five years. At December 31, 2010, there were options for 78,154 shares of the Company's common stock available for future grant under the 2003 Plan.

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

	Nine Months Ended December 31, 2010	Year Ended March 31, 2010

	Number of Shares		Weighted Average Exercise Price	Number of Shares		Weighted Average Exercise Price
Balance, beginning of period	465,700	$	9.35	371,696	$	10.99
Grants	18,000		2.33	122,000		3.82
Options exercised	-		-	-		-
Forfeited	(18,000)		10.26	(8,000)		10.82
Expired	-		-	(19,996)		5.50
Balance, end of period	465,700	$	9.04	465,700	$	9.35

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

	Nine Months Ended December 31, 2010	Year Ended March 31, 2010
Stock options fully vested and expected to vest:		
Number	463,675	458,475
Weighted average exercise price	$ 9.05	$ 9.42
Aggregate intrinsic value (1)	$ -	$ -
Weighted average contractual term of options (years)	5.84	6.69
Stock options fully vested and currently exercisable:		
Number	445,300	334,200
Weighted average exercise price	$ 9.22	$ 11.28
Aggregate intrinsic value (1)	$ -	$ -
Weighted average contractual term of options (years)	6.09	5.70

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

Stock-based compensation expense related to stock options for the nine months ended December 31, 2010 and 2009 was approximately $73,000 for both periods. As of December 31, 2010, there was approximately $17,000 of unrecognized compensation expense related to unvested stock options, which will be recognized over the remaining vesting periods of the underlying stock options through November 2014.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes based stock option valuation model. 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 Black-Scholes model uses the assumptions listed in the table below. The expected life of options granted represents the period of time that they are expected to be outstanding. The expected life is determined based on historical experience with similar options, giving consideration to the contractual terms and vesting schedules. Expected volatility was estimated at the date of grant based on the historical volatility of the Company's common stock. Expected dividends are based on dividend trends and the market value of the Company's common stock at the time of grant. The risk-free interest rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of the grant. During the nine months ended December 31, 2010 and 2009, the Company granted 18,000 and 122,000 stock options, respectively. The weighted average fair value of stock options granted during the nine months ended December 31, 2010 and 2009 was $0.83 and $1.22 per option, respectively

	Expected	Expected	Expected

	Risk Free Interest Rate	Life (years)	Volatility	Dividends
Fiscal 2011	2.47%	6.25	44.98%	2.73%
Fiscal 2010	3.08%	6.25	37.55%	2.45%

4. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Diluted EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares and common stock equivalents for items that are dilutive, net of shares assumed to be repurchased using the treasury stock method at the average share price for the Company's common stock during the period. Common stock equivalents arise from assumed conversion of outstanding stock options. Shares owned by the Company's Employee Stock Ownership Plan ("ESOP") that have not been allocated are not considered to be outstanding for the purpose of computing earnings per share. For the three and nine months ended December 31, 2010, stock options for 465,000 and 466,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive. For the three and nine months ended December 31, 2009, stock options for 464,000 and 397,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive.

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009
Basic EPS computation:				
Numerator-net income (loss)	$ 579,000	$ (1,286,000)	$ 3,461,000	$ (741,000)
Denominator-weighted average common shares outstanding	22,296,378	10,723,628	17,044,751	10,717,493
Basic EPS	$ 0.03	$ (0.12)	$ 0.20	$ (0.07)
Diluted EPS computation:				
Numerator-net income (loss)	$ 579,000	$ (1,286,000)	$ 3,461,000	$ (741,000)
Denominator-weighted average common shares outstanding	22,296,378	10,723,628	17,044,751	10,717,493
Effect of dilutive stock options	665	-	-	-
Weighted average common shares and common stock equivalents	22,297,043	10,723,628	17,044,751	10,717,493
Diluted EPS	$ 0.03	$ (0.12)	$ 0.20	$ (0.07)

5. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities held to maturity consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2010				
Municipal bonds	$ 505	$ 51	$ -	$ 556
March 31, 2010				
Municipal bonds	$ 517	$ 56	$ -	$ 573

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

December 31, 2010	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	-	-
Due after five years through ten years	505	556
Due after ten years	-	-
Total	$ 505	$ 556

The amortized cost and 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
December 31, 2010				
Trust preferred	$ 2,974	$ -	$ (2,095)	$ 879
Agency securities	5,000	-	(164)	4,836
Municipal bonds	540	-	-	540
Total	$ 8,514	$ -	$ (2,259)	$ 6,255
March 31, 2010				
Trust preferred	$ 2,974	$ -	$ (1,932)	$ 1,042
Agency securities	4,989	28	-	5,017
Municipal bonds	743	-	-	743
Total	$ 8,706	$ 28	$ (1,932)	$ 6,802

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

December 31, 2010	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	5,000	4,836
Due after five years through ten years	-	-
Due after ten years	3,514	1,419
Total	$ 8,514	$ 6,255

There were no investment securities pledged as collateral for treasury tax and loan funds held by the Bank at December 31, 2010. Investment securities with an amortized cost of $499,000 and a fair value of $502,000 at March 31, 2010 were pledged as collateral for treasury tax and loan funds held by the Bank. There were no investment securities pledged as collateral for government public funds held by the Bank at December 31, 2010. Investment securities with an amortized cost of $2.8 million and a fair value of $2.9 million at March 31, 2010 were pledged as collateral for governmental public funds held by the Bank.

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
December 31, 2010						
Trust preferred	$ -	$ -	$ 879	$ (2,095)	$ 879	$ (2,095)
Agency securities	4,836	(164)	-	-	4,836	(164)
Total	$ 4,836	$ (164)	$ 879	$ (2,095)	$ 5,715	$ (2,259)
March 31, 2010						
Trust preferred	$ -	$ -	$ 1,042	$ (1,932)	$ 1,042	$ (1,932)

During the three and nine months ended December 31, 2010, the Company determined that there was no additional other than temporary impairment ("OTTI") charge on the above trust preferred investment security. The Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell the security before the anticipated recovery of the remaining amortized cost basis.

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

The unrealized losses on the above agency securities are primarily attributable to increases in market interest rates subsequent to their purchase by the Company. The Company expects the fair value of these 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 any of the agency securities are impaired due to reasons of credit quality or related to any company or industry specific event. Based on management's evaluation and intent, none of the unrealized losses related to the agency securities in this table are considered other than temporary.

6. 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
December 31, 2010				
FHLMC mortgage-backed	$ 80	$ 4	$ -	$ 84

securities								
FNMA mortgage-backed securities		114		4		-		118
Total	$	194	$	8	$	-	$	202
March 31, 2010								
Real estate mortgage investment conduits	$	53	$	-	$	-	$	53
FHLMC mortgage-backed securities		86		3		-		89
FNMA mortgage-backed securities		120		3		-		123
Total	$	259	$	6	$	-	$	265

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

December 31, 2010		Amortized Cost		Estimated Fair Value
Due in one year or less	$	-	$	-
Due after one year through five years		6		6
Due after five years through ten years		-		-
Due after ten years		188		196
Total	$	194	$	202

Mortgage-backed securities held to maturity with an amortized cost of $78,000 and $136,000 and a fair value of $81,000 and $138,000 at December 31, 2010 and March 31, 2010, respectively, were pledged as collateral for governmental public funds held by the Bank. Mortgage-backed securities held to maturity with an amortized cost of $100,000 and $105,000 and a fair value of $104,000 and $107,000 at December 31, 2010 and March 31, 2010, respectively, were pledged as collateral for treasury tax and loan funds held by the Bank.

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

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Real estate mortgage investment conduits	$ 445	$ 16	$ -	$ 461
FHLMC mortgage-backed securities	1,466	36	-	1,502
FNMA mortgage-backed securities	41	3	-	44
Total	$ 1,952	$ 55	$ -	$ 2,007
March 31, 2010				
Real estate mortgage investment conduits	$ 538	$ 18	$ -	$ 556
FHLMC mortgage-backed securities	2,158	61	-	2,219
FNMA mortgage-backed securities	50	3	-	53
Total	$ 2,746	$ 82	$ -	$ 2,828

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

December 31, 2010	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	1,487	1,525
Due after five years through ten years	151	159
Due after ten years	314	323
Total	$ 1,952	$ 2,007

There were no mortgage-backed securities available for sale pledged as collateral for Federal Home Loan Bank of Seattle ("FHLB") advances at December 31, 2010. Mortgage-backed securities available for sale with an amortized cost of $2.7 million and a fair value of $2.8 million at March 31, 2010, were pledged as collateral for FHLB advances. Mortgage-backed securities available for sale with an amortized cost of $192,000 and $51,000 and a fair value of $203,000 and $53,000 at December 31, 2010 and March 31, 2010, respectively, were pledged as collateral for government public funds held by the Bank. Mortgage-backed securities available for sale with an amortized cost of $150,000 a fair value of $154,000 at December 31, 2010 were pledged as collateral for treasury tax and loan funds held by the Bank. There were no mortgage-backed securities available for sale pledged as collateral for treasury tax and loan funds at March 31, 2010.

7. LOANS RECEIVABLE

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

	December 31, 2010	March 31, 2010
Commercial and construction		
Commercial business	$ 85,768	$ 108,368
Other real estate mortgage	454,058	459,178
Real estate construction	32,870	75,456
Total commercial and construction	572,696	643,002
Consumer		
Real estate one-to-four family	102,488	88,861
Other installment	2,354	2,616
Total consumer	104,842	91,477
Total loans	677,538	734,479
Less: Allowance for loan losses	17,463	