RIVERVIEW BANCORP INC
Form 10-Q
February 08, 2018
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, 2017

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: 000-22957

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

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

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

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

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]
Smaller reporting company [ ] Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $.01 par value per share, 22,569,423 shares outstanding as of February 8, 2018.

Form 10-Q

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
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Forward-Looking Statements

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

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: When used in this Form 10-Q, the words "believes," "expects," "anticipates," "estimates," "forecasts," "intends," "plans," "targets," "potentially," "probably," "projects," "outlook," or similar expressions or future or conditional verbs such as "may," "will," "should," "would," and "could," or similar expressions 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 allowance for loan losses, write-down assets, reclassify its assets, change Riverview Community Bank's regulatory capital position or affect the Company's ability to borrow funds or maintain or increase deposits, which could adversely affect its liquidity and earnings; legislative or regulatory changes that adversely affect the Company's business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III; the Company's ability to attract and retain deposits; increases in premiums for deposit insurance; the Company's ability to control operating costs and expenses; the use of estimates in determining fair value of certain of the Company's assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risks associated with the loans on the Company's consolidated 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 and specifically disclaims any obligation to revise any forward-looking statements included in this report or the reasons why actual results could differ from those contained in such statements, whether as a result of new information or 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 2018 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 consolidated financial condition and consolidated results of operations as well as its stock price performance.

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

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND MARCH 31, 2017

(In thousands, except share and per share data) (Unaudited)	December 31, 2017	March 31, 2017
ASSETS		
Cash and cash equivalents (including interest-earning accounts of $3,739 and $46,245)	$23,105	$64,613
Certificates of deposit held for investment	6,963	11,042
Loans held for sale	351	478
Investment securities:		
Available for sale, at estimated fair value	224,931	200,214
Held to maturity, at amortized cost (estimated fair value of $45 and $66)	44	64
Loans receivable (net of allowance for loan losses of $10,867 and $10,528)	786,460	768,904
Real estate owned ("REO")	298	298
Prepaid expenses and other assets	4,843	3,815
Accrued interest receivable	3,464	2,941
Federal Home Loan Bank ("FHLB") stock, at cost	1,223	1,181
Premises and equipment, net	15,680	16,232
Deferred income taxes, net	3,988	7,610
Mortgage servicing rights, net	399	398
Goodwill	27,076	27,076
Core deposit intangible ("CDI"), net	1,161	1,335
Bank owned life insurance ("BOLI")	28,356	27,738
TOTAL ASSETS	$1,128,342	$1,133,939
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits	$972,214	$980,058
Accrued expenses and other liabilities	9,117	13,080
Advanced payments by borrowers for taxes and insurance	260	693
FHLB advances	1,050	-
Junior subordinated debentures	26,461	26,390
Capital lease obligation	2,437	2,454
Total liabilities	1,011,539	1,022,675
COMMITMENTS AND CONTINGENCIES (See Note 14)		
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, 2017 – 22,551,912 issued and outstanding	226	225
March 31, 2017 – 22,510,890 issued and outstanding		
Additional paid-in capital	64,703	64,468
Retained earnings	53,878	48,335
Unearned shares issued to employee stock ownership plan ("ESOP")	-	(77)
Accumulated other comprehensive loss	(2,004)	(1,687)

Total shareholders' equity	116,803	111,264
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,128,342	$1,133,939

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED
DECEMBER 31, 2017 AND 2016

	Three Months Ended December 31,		Nine Months Ended December 31,	
(In thousands, except share and per share data) (Unaudited)	2017	2016	2017	2016
INTEREST AND DIVIDEND INCOME:				
Interest and fees on loans receivable	$9,978	$7,883	$29,761	$22,954
Interest on investment securities – taxable	1,201	946	3,413	2,435
Interest on investment securities – nontaxable	31	11	59	11
Other interest and dividends	168	112	483	344
Total interest and dividend income	11,378	8,952	33,716	25,744
INTEREST EXPENSE:				
Interest on deposits	298	277	933	837
Interest on borrowings	284	173	829	494
Total interest expense	582	450	1,762	1,331
Net interest income	10,796	8,502	31,954	24,413
Provision for loan losses	-	-	-	-
Net interest income after provision for loan losses	10,796	8,502	31,954	24,413
NON-INTEREST INCOME:				
Fees and service charges	1,451	1,304	4,348	3,815
Asset management fees	911	709	2,582	2,258
Net gains on sales of loans held for sale	140	191	522	493
BOLI	207	185	618	566
BOLI death benefit in excess of cash surrender value	-	-	-	407
Other, net	181	(56)	271	(111)
Total non-interest income, net	2,890	2,333	8,341	7,428
NON-INTEREST EXPENSE:				
Salaries and employee benefits	5,383	4,850	16,056	14,021
Occupancy and depreciation	1,347	1,158	4,105	3,520
Data processing	534	562	1,730	1,533
Amortization of CDI	58	-	174	-
Advertising and marketing	137	163	627	608
FDIC insurance premium	108	77	389	273
State and local taxes	96	170	427	455
Telecommunications	102	75	309	224
Professional fees	250	355	926	1,066
Litigation settlement	-	-	-	500
REO	3	2	8	52
Other	540	439	1,740	1,811
Total non-interest expense	8,558	7,851	26,491	24,063
INCOME BEFORE INCOME TAXES	5,128	2,984	13,804	7,778
PROVISION FOR INCOME TAXES	3,608	991	6,571	2,408
NET INCOME	$1,520	$1,993	$7,233	$5,370

Earnings per common share:				
Basic	$0.07	$0.09	$0.32	$0.24
Diluted	0.07	0.09	0.32	0.24
Weighted average number of common shares outstanding:				
Basic	22,537,092	22,490,433	22,520,352	22,477,473
Diluted	22,622,129	22,563,712	22,608,603	22,537,663

See accompanying notes to consolidated financial statements.

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RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND NINE MONTHS ENDED
DECEMBER 31, 2017 AND 2016

	Three Months Ended December 31,		Nine Months Ended December 31	
(In thousands) (Unaudited)	2017	2016	2017	2016
Net income	$1,520	$1,993	$7,233	$5,370
Other comprehensive loss:				
Net unrealized holding loss from available for sale investment securities arising during the period, net of tax of $496, $1,787, $174 and $1,738, respectively	(900)	(3,249)	(317)	(3,158)
Reclassification adjustment for other than temporary impairment of available for sale investment security included in income, net of tax of $0, ($38), $0 and ($85), respectively	-	70	-	155
Total other comprehensive loss, net	(900)	(3,179)	(317)	(3,003)
Total comprehensive income (loss), net	$620	$(1,186)	$6,916	$2,367

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED DECEMBER 31, 2017 AND 2016

(In thousands, except share data) (Unaudited)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to ESOP	Accumulated Other Comprehensive Income (Loss)	Total
Balance April 1, 2016	22,507,890	$ 225	$ 64,418	$ 42,728	$ (181)	$ 1,083	$ 108,273
Net income	-	-	-	5,370	-	-	5,370
Cash dividend on common stock ($0.06 per share)	-	-	-	(1,348)	-	-	(1,348)
Exercise of stock options	3,000	-	11	-	-	-	11
Earned ESOP shares	-	-	19	-	78	-	97
Other comprehensive loss, net	-	-	-	-	-	(3,003)	(3,003)
Balance December 31, 2016	22,510,890	$ 225	$ 64,448	$ 46,750	$ (103)	$ (1,920)	$ 109,400
Balance April 1, 2017	22,510,890	$ 225	$ 64,468	$ 48,335	$ (77)	$ (1,687)	$ 111,264
Net income	-	-	-	7,233	-	-	7,233
Cash dividend on common stock ($0.075 per share)	-	-	-	(1,690)	-	-	(1,690)
Exercise of stock options	41,022	1	164	-	-	-	165
Earned ESOP shares	-	-	71	-	77	-	148
Other comprehensive loss, net	-	-	-	-	-	(317)	(317)
Balance December 31, 2017	22,551,912	$ 226	$ 64,703	$ 53,878	$ -	$ (2,004)	$ 116,803

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2017 AND 2016

(In thousands) (Unaudited)	Nine Months Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$7,233	$5,370
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,207	2,082
Purchased loans amortization (accretion), net	(209)	542
Provision for deferred income taxes	3,796	2,177
Expense related to ESOP	148	97
Increase in deferred loan origination fees, net of amortization	238	441
Origination of loans held for sale	(16,631)	(16,713)
Proceeds from sales of loans held for sale	17,120	15,854
Writedown of REO	-	30
Loss on impairment of investment security	-	240
Net gains on loans held for sale, sales and transfer of REO, sales of investment securities and sales of premises and equipment	(603)	(487)
Income from BOLI	(618)	(566)
Changes in certain other assets and liabilities:		
Prepaid expenses and other assets	(1,151)	505
Accrued interest receivable	(523)	(462)
Accrued expenses and other liabilities	(4,070)	3,182
Net cash provided by operating activities	6,937	12,292
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan repayments (originations), net	13,510	(40,055)
Purchases of loans receivable	(31,046)	-
Principal repayments on investment securities available for sale	21,236	22,681
Purchases of investment securities available for sale	(47,493)	(92,417)
Proceeds from calls, maturities, and sales of investment securities available for sale	-	5,500
Principal repayments on investment securities held to maturity	20	8
Redemption of certificates of deposit held for investment	4,079	5,478
Proceeds from death benefit on BOLI	-	407
Purchase of FHLB stock	(42)	-
Purchases of premises and equipment and capitalized software	(364)	(209)
Proceeds from sales of REO and premises and equipment	81	263
Net cash used in investing activities	(40,019)	(98,344)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	(7,729)	60,588
Dividends paid	(1,462)	(1,348)
Proceeds from borrowings	19,675	2,000
Repayment of borrowings	(18,625)	(2,000)
Principal payments on capital lease obligation	(17)	(16)
Net decrease in advance payments by borrowers	(433)	(321)
Proceeds from exercise of stock options	165	11

Net cash provided by (used in) financing activities	(8,426)	58,914
NET DECREASE IN CASH AND CASH EQUIVALENTS	(41,508)	(27,138)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	64,613	55,400
CASH AND CASH EQUIVALENTS, END OF PERIOD	$23,105	$28,262
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$1,640	$1,194
Income taxes	3,279	230
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Dividends declared and accrued in other liabilities	$678	$450
Other comprehensive loss	(491)	(4,656)
Income tax effect related to other comprehensive loss	174	1,653
Transfer of investment security to other assets	-	1,679

See accompanying 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 consolidated 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 consolidated financial statements included in the Riverview Bancorp, Inc. Annual Report on Form 10-K for the year ended March 31, 2017 ("2017 Form 10-K"). The unaudited consolidated results of operations for the nine months ended December 31, 2017 are not necessarily indicative of the results which may be expected for the entire fiscal year ending March 31, 2018.

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

On February 17, 2017, Riverview Bancorp, Inc. and Riverview Community Bank (the "Bank") completed the purchase and assumption transaction in which Riverview Community Bank purchased certain assets and assumed certain liabilities of MBank, the wholly-owned subsidiary of Merchants Bancorp (the "MBank transaction"). In addition, as part of the MBank transaction, Riverview Bancorp, Inc. assumed the obligations of Merchant Bancorp's trust preferred securities. The MBank transaction was accounted for as a business combination pursuant to GAAP. The results of operations of the acquired assets and assumed liabilities have been included in the Company's consolidated financial statements as of and for the period since the acquisition date. See Note 3 for additional discussion.

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. The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017, and – among other provisions – lowered the federal corporate income tax rate. As a result, the Company revalued its deferred tax assets and liabilities during the three months ended December 31, 2017, which resulted in a reduction to the Company's net deferred tax assets and a related charge to the provision for income taxes of $2.2 million. This charge included a $404,000 revaluation for the tax effects of unrealized losses of available for sale investment securities. In addition, the Company will utilize a blended tax rate for its fiscal year ending March 31, 2018 given the Tax Act lowered the federal corporate tax rate beginning January 1, 2018. As a result of utilizing a blended tax rate for its fiscal year ending March 31, 2018, the Company recognized a $422,000 benefit for income taxes for both the three and nine months ended December 31, 2017. As a result of revaluing the Company's net deferred tax assets and utilization of a blended tax rate, for both the three and nine months ended December 31, 2017, the Company recognized a net one-time charge to the provision for income taxes of $1.8 million.

The changes included in the Tax Act are broad and complex. The final transition impacts of the Tax Act may differ from the above estimates, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the Company has utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates. The Securities and Exchange Commission has issued rules that would allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. We currently anticipate finalizing and recording any resulting adjustments by the end of our current fiscal year ending March 31, 2018.

Certain prior period amounts have been reclassified to conform to the December 31, 2017 presentation; such reclassifications had no effect on net income or total equity previously reported.

2. PRINCIPLES OF CONSOLIDATION

The accompanying unaudited consolidated financial statements include the accounts of Riverview Bancorp, Inc.; its wholly-owned subsidiary, Riverview Community Bank; and the Bank's wholly-owned subsidiaries, Riverview Services, Inc. and Riverview Trust Company (the "Trust Company") (collectively referred to as the "Company"). All inter-company transactions and balances have been eliminated in consolidation.

3. BUSINESS COMBINATIONS

On February 17, 2017, the Company acquired certain assets and assumed certain liabilities of Merchants Bancorp and its wholly-owned subsidiary, MBank. MBank provided community banking services to individuals and businesses from banking offices in the Portland, Oregon metropolitan area. As a result of the MBank transaction, the Company has increased its presence in the Portland, Oregon metropolitan area and further diversified its loan, customer and deposit base. Total consideration paid under the MBank transaction consisted of $12.1 million in cash. There were no transfers of common stock or other equity instruments in connection with the MBank transaction, and the Company did not obtain any equity interests in Merchants Bancorp or MBank.

The acquired assets and assumed liabilities were recorded in the Company's consolidated balance sheets at their estimated fair values as of the February 17, 2017 transaction date, and the related results of operations have been included in the Company's consolidated statements of income since the transaction date. The excess of the consideration transferred over the fair value of the identifiable net assets acquired was recorded as goodwill. The goodwill arising from the transaction consists largely of the synergies and economies of scale expected from combining the operations of the Company and the acquired business.

In most instances, determining the estimated fair values of the acquired assets and assumed liabilities requires the Company to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at the appropriate rate of interest. Differences may arise between contractually required payments and the expected cash flows at the acquisition date due to items such as estimated credit losses, prepayments or early withdrawals, and other factors. The most significant of those determinations relates to the valuation of acquired loans. For such loans, the excess of cash flows expected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans. In accordance with GAAP, there was no carry-over of MBank's previously established allowance for loan losses. Goodwill is expected to be fully deductible for income tax purposes as, under the terms of the MBank transaction, the Company purchased certain assets and assumed certain liabilities of MBank but did not acquire any equity or other ownership interests.

The following table summarizes the fair value of consideration transferred, the estimated fair values of assets acquired and liabilities assumed as of the acquisition date, and the resulting goodwill relating to the transaction (in thousands):

	At February 17, 2017		
	Book Value	Fair Value Adjustment	Estimated Fair Value
Cash consideration transferred			$12,080
Recognized amounts of identifiable assets acquired and liabilities assumed			
Identifiable assets acquired			
Cash and cash equivalents	$27,196	$ -	$27,196
Loans receivable	115,283	(3,258)	112,025
CDI	-	1,363	1,363
Premises and equipment	1,769	399	2,168

BOLI	2,113	-	2,113
Accrued interest receivable and other assets	431	90	521
Total identifiable assets acquired	146,792	(1,406)	145,386
Liabilities assumed			
Deposits	130,572	235	130,807
Junior subordinated debentures	5,155	(1,468)	3,687
Accrued expenses and other liabilities	293	23	316
Total liabilities assumed	136,020	(1,210)	134,810
Total identifiable net assets acquired	$ 10,772	$ (196)	10,576
Goodwill recognized			$ 1,504

The acquired loan portfolio was valued using Level 3 inputs (see Note 12) and included the use of present value techniques, including cash flow estimates and incorporated assumptions that the Company believes marketplace participants would use in estimating fair values. Credit discounts were included in the determination of the fair value of the loans acquired; therefore, an allowance for loan losses was not recorded at the acquisition date. Acquired loans are evaluated upon acquisition and classified as either purchased credit-impaired ("PCI") or purchased non-credit-impaired. PCI loans reflect credit deterioration since origination such that it is probable at acquisition that the Company will be unable to collect all contractually required payments. The Company determined there were no PCI loans acquired in connection with the MBank transaction.

For purchased non-credit-impaired loans, the difference between the fair value and unpaid principal balance of the loan at the acquisition date is amortized or accreted to interest income over the life of the loans. Any subsequent deterioration in credit quality is recognized by recording an allowance for loan losses.

CDI represents the value assigned to demand, interest checking, money market and savings accounts acquired as part of an acquisition. CDI represents the future economic benefit of the potential cost savings from acquiring core deposits as part of an acquisition compared to the cost of alternative funding sources. CDI is amortized to non-interest expense using an accelerated method based on an estimated runoff of related deposits over a period of ten years. CDI is evaluated for impairment and recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable, with any changes in estimated useful life accounted for prospectively over the revised remaining life.

4. STOCK PLANS AND STOCK-BASED COMPENSATION

In July 1998, shareholders of the Company approved the adoption of the 1998 Stock Option Plan ("1998 Plan"). The 1998 Plan was effective October 1998 and expired in October 2008. In addition, in July 2003, shareholders of the Company approved the adoption of the 2003 Stock Option Plan ("2003 Plan"). The 2003 Plan was effective in July 2003 and expired in July 2013. Accordingly, no further option awards may be granted under the 1998 Plan or the 2003 Plan; however, any awards granted prior to their expirations remain outstanding subject to their terms. Each option granted under the 1998 Plan or 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.

In July 2017, shareholders of the Company approved the 2017 Equity Incentive Plan ("2017 Plan"). The 2017 Plan provides for the grant of incentive stock options, non-qualified stock options, restricted stock and restricted stock units. The Company has reserved 1,800,000 shares of its common stock for issuance under the 2017 Plan.

The following table presents information related to stock options outstanding for the periods shown:

	Nine Months Ended December 31, 2017		Nine Months Ended December 31, 2016	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance, beginning of period	220,654	$ 4.74	223,654	$ 4.73
Options exercised	(41,022)	4.01	(3,000)	3.84
Expired	(33,000)	8.49	-	-
Balance, end of period	146,632	$ 4.10	220,654	$ 4.74

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

	December 31, 2017	December 31, 2016
Stock options fully vested and expected to vest:		
Number	146,632	220,654

Weighted average exercise price	$4.10	$4.74
Aggregate intrinsic value [1]	$678,000	$630,000
Weighted average contractual term of options (years)	2.93	3.60
Stock options fully vested and currently exercisable:		
Number	146,632	220,654
Weighted average exercise price	$4.10	$4.74
Aggregate intrinsic value [1]	$678,000	$630,000
Weighted average contractual term of options (years)	2.93	3.60

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

There was no stock-based compensation expense related to stock options for the nine months ended December 31, 2017 and 2016. As of December 31, 2017, all outstanding stock options were fully vested, and there was no remaining unrecognized compensation expense. The total intrinsic value of stock options exercised was $170,000 and $5,000 for the nine months ended December 31, 2017 and 2016, respectively.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes stock option valuation model. There were no stock options granted during the nine months ended December 31, 2017 and 2016.

5. 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 the assumed exercise of outstanding stock options. Shares owned by the Company's ESOP that have not been allocated are not considered to be outstanding for the purpose of computing basic and diluted EPS. As of December 31, 2017, all shares under the Company's ESOP were allocated. As of December 31, 2016, there were 24,633 shares which had not been allocated under the Company's ESOP. For the three and nine months ended December 31, 2017, stock options for 5,000 shares and 12,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive. For both the three and nine months ended December 31, 2016, stock options for 59,000 shares of common stock were excluded in computing diluted EPS because they were antidilutive.

The following table presents a reconciliation of the components used to compute basic and diluted EPS for the periods indicated:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Basic EPS computation:				
Numerator-net income	$1,520,000	$1,993,000	$7,233,000	$5,370,000
Denominator-weighted average common shares outstanding	22,537,092	22,490,433	22,520,352	22,477,473
Basic EPS	$0.07	$0.09	$0.32	$0.24
Diluted EPS computation:				
Numerator-net income	$1,520,000	$1,993,000	$7,233,000	$5,370,000
Denominator-weighted average common shares outstanding	22,537,092	22,490,433	22,520,352	22,477,473
Effect of dilutive stock options	85,037	73,279	88,251	60,190
Weighted average common shares and common stock equivalents	22,622,129	22,563,712	22,608,603	22,537,663
Diluted EPS	$0.07	$0.09	$0.32	$0.24

6. INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>December 31, 2017</u>				
Available for sale:				
Municipal securities	$10,038	$ 10	$ (68)	$9,980
Agency securities	22,408	11	(202)	22,217

Real estate mortgage investment conduits [1]	50,145	4	(754)	49,395
Residential mortgage-backed securities [1]	95,795	22	(1,184)	94,633
Other mortgage-backed securities [2]	49,651	16	(961)	48,706
Total available for sale	$ 228,037	$ 63	$ (3,169)	$ 224,931
Held to maturity:				
Residential mortgage-backed securities [3]	$ 44	$ 1	$ -	$ 45

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2017				
Available for sale:				
Municipal securities	$ 2,936	$ -	$ (117)	$ 2,819
Agency securities	16,993	18	(203)	16,808
Real estate mortgage investment conduits (1)	43,510	49	(399)	43,160
Residential mortgage-backed securities (1)	97,742	111	(1,242)	96,611
Other mortgage-backed securities (2)	41,649	15	(848)	40,816
Total available for sale	$ 202,830	$ 193	$ (2,809)	$ 200,214
Held to maturity:				
Residential mortgage-backed securities (3)	$ 64	$ 2	$ -	$ 66

(1) Comprised of Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA") and Ginnie Mae ("GNMA") issued securities.
(2) Comprised of U.S. Small Business Administration ("SBA") issued securities and commercial real estate ("CRE") secured securities issued by FNMA.
(3) Comprised of FHLMC and FNMA issued securities.

The contractual maturities of investment securities as of December 31, 2017 are as follows (in thousands):

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 10,000	$ 9,953	$ -	$ -
Due after one year through five years	6,447	6,432	6	6
Due after five years through ten years	47,547	46,865	33	34
Due after ten years	164,043	161,681	5	5
Total	$ 228,037	$ 224,931	$ 44	$ 45

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

The fair value of temporarily impaired investment 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	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
December 31, 2017						
Available for sale:						
Municipal securities	$ 5,471	$ (52)	$ 2,176	$ (16)	$ 7,647	$ (68)
Agency securities	5,369	(41)	15,832	(161)	21,201	(202)

Real estate mortgage investment conduits [1]	31,252	(358)	15,643	(396)	46,895	(754)
Residential mortgage-backed securities [1]	48,645	(315)	40,262	(869)	88,907	(1,184)
Other mortgage-backed securities [2]	16,331	(173)	30,651	(788)	46,982	(961)
Total available for sale	$107,068	$ (939)	$104,564	$ (2,230)	$211,632	$ (3,169)

(1) Comprised of FHLMC, FNMA and GNMA issued securities.
(2) Comprised of SBA and CRE secured securities issued by FHLMC.

<u>March 31, 2017</u>

Available for sale:						
Municipal securities	$2,819	$ (117)	$-	$ -	$2,819	$ (117)
Agency securities	15,785	(203)	-	-	15,785	(203)
Real estate mortgage investment conduits [1]	32,221	(399)	-	-	32,221	(399)
Residential mortgage-backed securities [2]	74,388	(1,232)	602	(10)	74,990	(1,242)
Other mortgage-backed securities [3]	36,754	(803)	2,840	(45)	39,594	(848)
Total available for sale	$161,967	$ (2,754)	$3,442	$ (55)	$165,409	$ (2,809)

(1) Comprised of FHLMC and FNMA issued securities.
(2) Comprised of FHLMC, FNMA and GNMA issued securities.
(3) Comprised of SBA issued and CRE secured securities issued by FNMA.

The unrealized losses on the Company's investment securities at December 31, 2017 were primarily attributable to increases in market interest rates subsequent to their purchase by the Company. The Company expects the fair value of these securities to recover as the securities approach their maturity dates or sooner if market yields for such securities decline. The Company does not believe that these 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 investment securities in the above tables are considered temporary.

The Company had no sales and realized no gains or losses on sales of investment securities for the three and nine months ended December 31, 2017 and 2016. Investment securities available for sale with an amortized cost of $3.9 million and $11.1 million and a fair value of $3.9 million and $11.1 million at December 31, 2017 and March 31, 2017, respectively, were pledged as collateral for government public funds held by the Bank. There were no held to maturity investment securities pledged as collateral for government public funds held by the Bank at December 31, 2017. Investment securities held to maturity with an amortized cost and a fair value of $20,000 at March 31, 2017 were pledged as collateral for government public funds held by the Bank.

7. LOANS RECEIVABLE

Loans receivable as of December 31, 2017 and March 31, 2017 are reported net of deferred loan fees totaling $3.4 million and $3.2 million, respectively. Loans receivable are also reported net of discounts totaling $641,000 and $2.0 million at December 31, 2017 and March 31, 2017, respectively. Loans receivable, excluding loans held for sale, consisted of the following at the dates indicated (in thousands):

	December 31, 2017	March 31, 2017
Commercial and construction		
Commercial business	$ 130,960	$ 107,371
Commercial real estate	441,903	447,071
Land	12,469	15,875
Multi-family	61,851	43,715
Real estate construction	40,743	46,157
Total commercial and construction	687,926	660,189
Consumer		
Real estate one-to-four family	91,752	92,865
Other installment (1)	17,649	26,378
Total consumer	109,401	119,243
Total loans	797,327	779,432
Less: Allowance for loan losses	10,867	10,528
Loans receivable, net	$ 786,460	$ 768,904

(1) Consists primarily of purchased automobile loans totaling $15.2 million and $23.6 million at December 31, 2017 and March 31, 2017, respectively.

The Company considers its loan portfolio to have very little exposure to sub-prime mortgage loans since the Company has not historically engaged in this type of lending. At December 31, 2017, loans carried at $504.2 million were pledged as collateral to the FHLB and Federal Reserve Bank of San Francisco ("FRB") pursuant to borrowing agreements.

Most of the Bank's business activity is with customers located in the states of Washington and Oregon. Loans and extensions of credit outstanding at one time to one borrower are generally limited by federal regulation to 15% of the

Bank's shareholders' equity, excluding accumulated other comprehensive income (loss). As of December 31, 2017 and March 31, 2017, the Bank had no loans to any one borrower in excess of the regulatory limit.

8. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level sufficient to provide for estimated 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 a 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 (less estimated selling costs, if applicable) 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 consolidated financial statements.

When available information confirms that specific loans or portions of these loans 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; and/or 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, seasoning of the loan portfolio, duration of the 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. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

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

Three months ended December 31, 2017	Commercial Business	Commercial Real Estate	Land	Multi-Family	Real Estate Construction	Consumer	Unallocated	Total
Beginning balance	$ 1,340	$ 5,116	$196	$ 504	$ 840	$ 1,890	$ 731	$10,617
Provision for (recapture of) loan losses	(186)	(26)	(19)	295	(206)	81	61	-
Charge-offs	-	-	-	-	-	(46)	-	(46)
Recoveries	220	65	-	-	-	11	-	296
Ending balance	$ 1,374	$ 5,155	$177	$ 799	$ 634	$ 1,936	$ 792	$10,867

Nine months ended December 31, 2017								
Beginning balance	$1,418	$5,084	$228	$297	$714	$2,099	$688	$10,528
Provision for (recapture of) loan losses	(270)	40	(344)	502	(80)	48	104	-
Charge-offs	-	-	-	-	-	(257)	-	(257)
Recoveries	226	31	293	-	-	46	-	596
Ending balance	$1,374	$5,155	$177	$799	$634	$1,936	$792	$10,867

Three months ended
<u>December 31, 2016</u>

Beginning balance	$909	$4,689	$154	$613	$727	$2,290	$681	$10,063
Provision for (recapture of) loan losses	131	162	(113)	(284)	94	(13)	23	-
Charge-offs	(1)	-	-	-	-	(131)	-	(132)
Recoveries	205	-	132	-	-	21	-	358
Ending balance	$1,244	$4,851	$173	$329	$821	$2,167	$704	$10,289

Nine months ended
<u>December 31, 2016</u>

Beginning balance	$1,048	$4,273	$325	$712	$416	$2,403	$708	$9,885
Provision for (recapture of) loan losses	(19)	576	(472)	(383)	405	(103)	(4)	-
Charge-offs	(1)	-	-	-	-	(246)	-	(247)
Recoveries	216	2	320	-	-	113	-	651
Ending balance	$1,244	$4,851	$173	$329	$821	$2,167	$704	$10,289

The following tables present an analysis of loans receivable and the allowance for loan losses, based on impairment methodology, at the dates indicated (in thousands):

	Allowance for loan losses			Recorded investment in loans		
December 31, 2017	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial business	$-	$ 1,374	$1,374	$1,120	$ 129,840	$130,960
Commercial real estate	60	5,095	5,155	2,990	438,913	441,903
Land	-	177	177	770	11,699	12,469
Multi-family	-	799	799	1,657	60,194	61,851
Real estate construction	-	634	634	-	40,743	40,743
Consumer	77	1,859	1,936	1,440	107,961	109,401
Unallocated	-	792	792	-	-	-
Total	$137	$ 10,730	$10,867	$7,977	$ 789,350	$797,327

March 31, 2017						
Commercial business	$-	$1,418	$1,418	$294	$107,077	$107,371
Commercial real estate	-	5,084	5,084	7,604	439,467	447,071
Land	-	228	228	801	15,074	15,875
Multi-family	-	297	297	1,692	42,023	43,715
Real estate construction	-	714	714	-	46,157	46,157
Consumer	88	2,011	2,099	1,475	117,768	119,243
Unallocated	-	688	688	-	-	-
Total	$88	$10,440	$10,528	$11,866	$767,566	$779,432

Non-accrual loans: Loans are reviewed regularly and it is the Company's general policy that a loan is past due when it is 30 to 89 days delinquent. In general, when a loan is 90 days delinquent or when collection of principal or interest appears doubtful, it is placed on non-accrual status, at which time the accrual of interest ceases and a reserve for unrecoverable accrued interest is established and charged against operations. As a general practice, payments received on non-accrual loans are applied to reduce the outstanding principal balance on a cost recovery method. Also 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. A history of repayment performance generally would be a minimum of six months. Interest income foregone on non-accrual loans was $78,000 and $56,000 during the nine months ended December 31, 2017 and 2016, respectively.

The following tables present an analysis of loans by aging category at the dates indicated (in thousands):

December 31, 2017	30-89 Days Past Due	90 Days and Greater Past Due	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans Receivable

Commercial business	$ 16	$ -	$ 289	$ 305	$ 130,655	$ 130,960
Commercial real estate	-	-	1,291	1,291	440,612	441,903
Land	-	-	770	770	11,699	12,469
Multi-family	-	-	-	-	61,851	61,851
Real estate construction	-	-	-	-	40,743	40,743
Consumer	575	-	306	881	108,520	109,401
Total	$ 591	$ -	$ 2,656	$ 3,247	$ 794,080	$ 797,327

March 31, 2017

Commercial business	$ 13	$ -	$ 294	$ 307	$ 107,064	$ 107,371
Commercial real estate	-	-	1,342	1,342	445,729	447,071
Land	-	-	801	801	15,074	15,875
Multi-family	-	-	-	-	43,715	43,715
Real estate construction	-	-	-	-	46,157	46,157
Consumer	228	34	278	540	118,703	119,243
Total	$ 241	$ 34	$ 2,715	$ 2,990	$ 776,442	$ 779,432

Credit quality indicators: The Company monitors credit risk in its loan portfolio using a risk rating system (on a scale of one to nine) 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 future financial characteristics. The Company assigns a risk rating to each commercial loan at origination and subsequently updates these ratings, as necessary, so that the risk rating continues to reflect the appropriate risk characteristics of the loan. Application of appropriate risk ratings is key to management of loan portfolio risk. In determining the appropriate risk rating, the Company considers the following factors: delinquency, payment history, quality of management, liquidity, leverage, earnings 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 losses.

Pass – These loans have a 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 strengths in other areas. Typically, these loans are secured by the operating assets of the borrower and/or real estate. The borrower's 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 are included in the "pass" rating. However, there would typically be some reason for additional management oversight, such as the borrower's recent financial setbacks and/or deteriorating financial position, industry concerns and failure to perform on other borrowing obligations. Loans with this rating are 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 loan or in the credit position at some future date. These loans 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. Repayment of such loans is likely 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 repayment may be dependent upon collateral which has 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 charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. "Loss" is not intended to imply that the loan or some portion of it will never be paid, nor does it in any way imply that there has been a forgiveness of debt.

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

December 31, 2017	Pass	Special Mention	Substandard	Doubtful	Loss	Total Loans Receivable
Commercial business	$126,764	$1,771	$ 2,425	$ -	$ -	$ 130,960
Commercial real estate	429,613	9,197	3,093	-	-	441,903
Land	11,699	-	770	-	-	12,469
Multi-family	59,645	2,195	11	-	-	61,851
Real estate construction	40,743	-	-	-	-	40,743
Consumer	109,095	-	306	-	-	109,401
Total	$777,559	$13,163	$ 6,605	$ -	$ -	$ 797,327

March 31, 2017						
Commercial business	$102,113	$2,063	$3,195	$-	$-	$107,371
Commercial real estate	430,923	10,426	5,722	-	-	447,071
Land	15,074	-	801	-	-	15,875
Multi-family	43,156	547	12	-	-	43,715
Real estate construction	46,157	-	-	-	-	46,157
Consumer	118,965	-	278	-	-	119,243
Total	$756,388	$13,036	$10,008	$-	$-	$779,432

Impaired loans and troubled debt restructurings ("TDRs"): 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, whether the loan is 90 days or more delinquent, internally designated as substandard or worse, on non-accrual status or represents a 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 estimated 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 has not had an appraisal of the collateral performed in the last six months, the Company obtains an updated market valuation. Subsequently, the Company generally obtains an updated market valuation of the collateral on an annual basis. The collateral valuation may occur more frequently if the Company determines that there is an indication that the market value may have declined.

The following tables present the total and average recorded investment in impaired loans at the dates and for the periods indicated (in thousands):

December 31, 2017	Recorded Investment with	Recorded Investment with Specific	Total Recorded Investment	Unpaid Principal Balance	Related Specific Valuation Allowance

	No Specific Valuation Allowance	Valuation Allowance			
Commercial business	$ 1,120	$ -	$ 1,120	$ 1,342	$ -
Commercial real estate	1,907	1,083	2,990	3,844	60
Land	770	-	770	794	-
Multi-family	1,657	-	1,657	1,789	-
Consumer	296	1,144	1,440	1,555	77
Total	$ 5,750	$ 2,227	$ 7,977	$ 9,324	$ 137
March 31, 2017					
Commercial business	$ 294	$ -	$ 294	$ 301	$ -
Commercial real estate	7,604	-	7,604	8,806	-
Land	801	-	801	807	-
Multi-family	1,692	-	1,692	1,826	-
Consumer	306	1,169	1,475	1,611	88
Total	$ 10,697	$ 1,169	$ 11,866	$ 13,351	$ 88

	Three Months ended December 31, 2017		Three Months ended December 31, 2016	
	Average Recorded Investment	Interest Recognized on Impaired Loans	Average Recorded Investment	Interest Recognized on Impaired Loans
Commercial business	$1,118	$ 9	$298	$ 2
Commercial real estate	3,347	20	8,607	72
Land	775	-	801	-
Multi-family	1,663	23	1,704	23
Consumer	1,446	15	1,492	16
Total	$8,349	$ 67	$12,902	$ 113

	Nine Months ended December 31, 2017		Nine Months ended December 31, 2016	
	Average Recorded Investment	Interest Recognized on Impaired Loans	Average Recorded Investment	Interest Recognized on Impaired Loans
Commercial business	$912	$ 32	$244	$ 10
Commercial real estate	4,510	82	9,128	267
Land	786	-	801	-
Multi-family	1,674	68	1,715	70
Consumer	1,458	46	1,543	47
Total	$9,340	$ 228	$13,431	$ 394

The cash basis interest income on impaired loans was not materially different than the interest recognized on impaired loans as shown in the above tables.

TDRs are loans for which 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, and/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, impairment is measured as described for impaired loans above.

The following table presents TDRs by interest accrual status at the dates indicated (in thousands):

	December 31, 2017			March 31, 2017		
	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Commercial business	$831	$ 289	$1,120	$-	$ 294	$294
Commercial real estate	1,699	1,291	2,990	6,262	1,342	7,604
Land	-	770	770	-	801	801
Multi-family	1,657	-	1,657	1,692	-	1,692
Consumer	1,440	-	1,440	1,475	-	1,475

Total	$5,627	$ 2,350	$7,977	$9,429	$ 2,437	$11,866

At December 31, 2017, the Company had no commitments to lend additional funds on these loans. At December 31, 2017, all of the Company's TDRs were paying as agreed except for two commercial business TDR loans totaling $289,000 and two commercial real estate TDR loans totaling $1.3 million that defaulted since the loans were modified.

There were no new TDRs for the three and nine months ended December 31, 2017. There were no new TDRs for the three months ended December 31, 2016. There was one new TDR for the nine months ended December 31, 2016 which was a commercial loan with a pre-modification outstanding recorded investment balance of $116,000 and a post-modification outstanding recorded investment balance of $107,000. There were no loans modified as a TDR within the previous twelve months that subsequently defaulted during the three and nine months ended December 31, 2017.

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 are 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 of the underlying collateral would result in full repayment of the outstanding loan balance. Once any other potential sources of repayment are exhausted, the impaired portion of the loan is charged-off. Regardless of whether a loan is unsecured or collateralized, once an amount is determined to be a confirmed loan loss it is promptly charged off.

9. GOODWILL

Goodwill and certain other intangibles generally arise from business combinations accounted for under the purchase method of accounting. Goodwill and other intangibles deemed to have indefinite lives generated from business combinations are not subject to amortization and are instead tested for impairment not less than annually. The Company has two reporting units, the Bank and the Trust Company, for purposes of evaluating goodwill for impairment. All of the Company's goodwill has been allocated to the Bank reporting unit.

The Company performed an impairment assessment as of October 31, 2017 and determined that no impairment of goodwill 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. GAAP with respect to goodwill requires that the Company compare the implied fair value of goodwill to the carrying amount of goodwill in the Company's consolidated balance sheet. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the Company is allocated to all of the Company's individual assets and liabilities, including any unrecognized identifiable intangible assets, as if the Company had been acquired in a business combination and the estimated fair value of the Company is the price paid to acquire it. The allocation process is performed only for purposes of determining the amount of goodwill impairment, as no assets or liabilities are written up or down, nor are any additional unrecognized identifiable intangible assets recorded as a part of this process. The results of the Company's step one test indicated that the reporting unit's fair value was greater than its carrying value, and, therefore, a step two analysis was not required; however, no assurance can be given that the Company's goodwill will not be written down in future periods.

The following table presents the changes in the carrying amount of goodwill for the periods indicated (in thousands):

	For the Nine Months Ended December 31, 2017	For the Year Ended March 31, 2017
Net carrying value at beginning of period	$ 27,076	$ 25,572
MBank Transaction (see Note 3)	-	1,504
Net carrying value at the end of period	$ 27,076	$ 27,076

10. FEDERAL HOME LOAN BANK ADVANCES

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

	December 31, 2017	March 31, 2017
FHLB advances	$ 1,050	$ -
Weighted average interest rate:	1.62 %	- %

11. JUNIOR SUBORDINATED DEBENTURES

The Company has 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 the Company's common stock.

The Debentures issued by the Company to the grantor trusts; totaling $26.5 million and $26.4 million at December 31, 2017 and March 31, 2017, respectively, 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 $836,000 at both December 31, 2017 and March 31, 2017, is included in prepaid expenses and other assets in the consolidated balance sheets. The Company records interest expense on the Debentures in the consolidated statements of income.

The following table is a summary of the terms and the amounts outstanding of the Debentures at December 31, 2017 (dollars in thousands):

Issuance Trust	Issuance Date	Amount Outstanding	Rate Type	Initial Rate	Current Rate	Maturity Date
Riverview Bancorp Statutory Trust I	12/2005	$ 7,217	Variable [1]	5.88 %	2.95 %	3/2036
Riverview Bancorp Statutory Trust II	06/2007	15,464	Variable [2]	7.03 %	2.94 %	9/2037
Merchants Bancorp Statutory Trust I [4]						