RIVERVIEW BANCORP INC
Form 10-Q
August 06, 2010
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 June 30, 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<br>(State or other jurisdiction of incorporation or organization) | 91-1838969<br>(I.R.S. Employer I.D. Number) |
| 900 Washington St., Ste. 900,Vancouver, Washington<br>(Address of principal executive offices) | 98660<br>(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, 20,965,614 shares outstanding as of August 5, 2010.

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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 Company’s ability to raise common capital, the amount of capital it intends to raise and its intended use of that capital; 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
JUNE 30, 2010 AND MARCH 31, 2010

| (In thousands, except share and per share data) (Unaudited) | June 30, 2010 | March 31, 2010 |
|---|---|---|
| ASSETS | | |
| Cash (including interest-earning accounts of $41,435 and $3,384) | $ 53,244 | $ 13,587 |
| Loans held for sale | 667 | 255 |
| Investment securities held to maturity, at amortized cost (fair value of $562 and $573) | 511 | 517 |
| Investment securities available for sale, at fair value (amortized cost of $8,691 and $8,706) | 6,727 | 6,802 |
| Mortgage-backed securities held to maturity, at amortized cost (fair value of $211 and $265) | 203 | 259 |
| Mortgage-backed securities available for sale, at fair value (amortized cost of $2,472 and $2,746) | 2,554 | 2,828 |
| Loans receivable (net of allowance for loan losses of $19,565 and $21,642) | 697,795 | 712,837 |
| Real estate and other personal property owned | 14,908 | 13,325 |
| Prepaid expenses and other assets | 7,560 | 7,934 |
| Accrued interest receivable | 2,653 | 2,849 |
| Federal Home Loan Bank stock, at cost | 7,350 | 7,350 |
| Premises and equipment, net | 16,201 | 16,487 |
| Deferred income taxes, net | 11,197 | 11,177 |
| Mortgage servicing rights, net | 493 | 509 |
| Goodwill | 25,572 | 25,572 |
| Core deposit intangible, net | 288 | 314 |
| Bank owned life insurance | 15,501 | 15,351 |
| TOTAL ASSETS | $ 863,424 | $ 837,953 |
| | | |
| LIABILITIES AND EQUITY | | |
| | | |
| LIABILITIES: | | |
| Deposit accounts | $ 715,573 | $ 688,048 |
| Accrued expenses and other liabilities | 8,224 | 6,833 |
| Advanced payments by borrowers for taxes and insurance | 194 | 427 |
| Federal Home Loan Bank advances | 28,000 | 23,000 |
| Federal Reserve Bank advances | - | 10,000 |
| Junior subordinated debentures | 22,681 | 22,681 |
| Capital lease obligations | 2,599 | 2,610 |
| Total liabilities | 777,271 | 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 | | |
| June 30, 2010 – 10,923,773 issued and outstanding | 109 | 109 |
| March 31, 2010 – 10,923,773 issued and outstanding | | |
| Additional paid-in capital | 46,980 | 46,948 |
| Retained earnings | 40,643 | 38,878 |
| Unearned shares issued to employee stock ownership trust | (773 ) | (799) |
| Accumulated other comprehensive loss | (1,241 ) | (1,202) |
| Total shareholders' equity | 85,718 | 83,934 |
| | | |
| Noncontrolling interest | 435 | 420 |
| Total equity | 86,153 | 84,354 |
| TOTAL LIABILITIES AND EQUITY | $ 863,424 | $ 837,953 |

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS ON INCOME

| (In thousands, except share and per share data) (Unaudited) | Three Months Ended June 30, 2010 | 2009 |
|---|---|---|
| INTEREST INCOME: | | |
| | | |
| Interest and fees on loans receivable | $ 11,193 | $ 11,710 |
| Interest on investment securities – taxable | 55 | 98 |
| Interest on investment securities – non-taxable | 15 | 32 |
| Interest on mortgage-backed securities | 26 | 40 |
| Other interest and dividends | 15 | 14 |
| Total interest and dividend income | 11,304 | 11,894 |
| | | |
| INTEREST EXPENSE: | | |
| Interest on deposits | 1,901 | 2,694 |
| Interest on borrowings | 385 | 520 |
| Total interest expense | 2,286 | 3,214 |
| Net interest income | 9,018 | 8,680 |
| Less provision for loan losses | 1,300 | 2,350 |
| Net interest income after provision for loan losses | 7,718 | 6,330 |
| | | |
| NON-INTEREST INCOME: | | |
| Fees and service charges | 1,099 | 1,244 |
| Asset management fees | 521 | 509 |
| Net gain on sale of loans held for sale | 119 | 401 |
| Impairment on investment security | - | (258) |
| Bank owned life insurance | 150 | 151 |
| Other | 347 | 56 |
| Total non-interest income | 2,236 | 2,103 |
| | | |
| NON-INTEREST EXPENSE: | | |
| Salaries and employee benefits | 3,940 | 3,875 |
| Occupancy and depreciation | 1,141 | 1,233 |
| Data processing | 252 | 240 |
| Amortization of core deposit intangible | 26 | 30 |
| Advertising and marketing expense | 135 | 159 |
| FDIC insurance premium | 421 | 695 |
| State and local taxes | 171 | 149 |
| Telecommunications | 107 | 116 |
| Professional fees | 326 | 304 |
| Real estate owned expenses | 166 | 609 |
| Other | 580 | 578 |
| Total non-interest expense | 7,265 | 7,988 |
| | | |
| INCOME BEFORE INCOME TAXES | 2,689 | 445 |
| PROVISION FOR INCOME TAXES | 924 | 102 |
| NET INCOME | $ 1,765 | $ 343 |

| | | |
|---|---|---|
| Earnings per common share: | | |
| Basic | $ 0.16 | $ 0.03 |
| Diluted | 0.16 | 0.03 |
| Weighted average number of shares outstanding: | | |
| Basic | 10,735,946 | 10,711,313 |
| Diluted | 10,735,946 | 10,711,313 |

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE THREE MONTHS ENDED JUNE 30, 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 option expense | - | - | 12 | - | - | - | - | 12 |
| Earned ESOP shares | - | - | (6) | - | 26 | - | - | 20 |
| | 10,923,773 | 109 | 46,872 | 44,322 | (876) | (1,732) | 364 | 89,059 |
| Comprehensive income: | | | | | | | | |
| Net loss | - | - | - | 343 | - | - | - | 343 |
| Other comprehensive income, net of tax: | | | | | | | | |
| Unrealized holding gain on securities available for sale | - | - | - | - | - | 76 | - | 76 |
| Noncontrolling interest | - | - | - | - | - | - | 18 | 18 |
| Total comprehensive income | - | - | - | - | - | - | - | 437 |
| Balance June 30, 2009 | 10,923,773 | $ 109 | $ 46,872 | $ 44,665 | $ (876) | $ (1,656) | $ 382 | $ 89,496 |
| Balance April 1, 2010 | 10,923,773 | $ 109 | $ 46,948 | $ 38,878 | $ (799) | $ (1,202) | $ 420 | $ 84,354 |
| Stock option expense | - | - | 39 | - | - | - | - | 39 |
| Earned ESOP shares | - | - | (7) | - | 26 | - | - | 19 |
| | 10,923,773 | 109 | 46,980 | 38,878 | (773) | (1,202) | 420 | 84,412 |
| Comprehensive income: | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net income | - | - | - | 1,765 | - | - | - | 1,765 |
| Other comprehensive income, net of tax: | | | | | | | | |
| Unrealized holding loss on securities available for sale | - | - | - | - | - | (39) | - | (39) |
| Noncontrolling interest | - | - | - | - | - | - | 15 | 15 |
| Total comprehensive income | - | - | - | - | - | - | - | 1,741 |
| Balance June 30, 2010 | 10,923,773 | $ 109 | $ 46,980 | $ 40,643 | $ (773) | $ (1,241) | $ 435 | $ 86,153 |

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED JUNE 30, 2010 AND 2009

| (In thousands) (Unaudited) | 2010 | 2009 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 1,765 | $ 343 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 345 | 595 |
| Mortgage servicing rights valuation adjustment | (1) | 1 |
| Provision for loan losses | 1,300 | 2,350 |
| Noncash expense related to ESOP | 19 | 20 |
| Decrease in deferred loan origination fees, net of amortization | (189) | (83) |
| Origination of loans held for sale | (3,969) | (13,990) |
| Proceeds from sales of loans held for sale | 3,602 | 15,243 |
| Stock based compensation expense | 39 | 12 |
| Writedown of real estate owned | 74 | 305 |
| Net gain on loans held for sale, sale of real estate owned, mortgage-backed securities, investment securities and premises and equipment | (261) | (32) |
| Income from bank owned life insurance | (150) | (151) |
| Changes in assets and liabilities: | | |
| Prepaid expenses and other assets | 481 | (434) |
| Accrued interest receivable | 196 | 88 |
| Accrued expenses and other liabilities | 1,450 | (358) |
| Net cash provided by operating activities | 4,701 | 3,909 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Loan repayments, net | 10,988 | 17,385 |
| Proceeds from call, maturity, or sale of investment securities available for sale | 4,990 | - |
| Principal repayments on investment securities available for sale | 27 | 37 |
| Principal repayments on investment securities held to maturity | 6 | 6 |
| Purchase of investment securities available for sale | (5,000) | (4,988) |
| Principal repayments on mortgage-backed securities available for sale | 274 | 367 |
| Principal repayments on mortgage-backed securities held to maturity | 56 | 92 |
| Purchase of premises and equipment and capitalized software | (147) | (222) |
| Capitalized improvements related to real estate owned | (5) | - |
| Proceeds from sale of real estate owned and premises and equipment | 1,486 | 2,110 |
| Net cash provided by investing activities | 12,675 | 14,787 |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase (decrease) in deposit accounts | 27,525 | (20,998) |
| Proceeds from borrowings | 78,800 | 377,000 |

| | | |
|---|---|---|
| Repayment of borrowings | (83,800) | (349,850) |
| Principal payments under capital lease obligation | (11) | (9) |
| Net decrease in advance payments by borrowers | (233) | (170) |
| Net cash provided by financing activities | 22,281 | 5,973 |
| | | |
| NET INCREASE IN CASH | 39,657 | 24,669 |
| CASH, BEGINNING OF PERIOD | 13,587 | 19,199 |
| CASH, END OF PERIOD | $ 53,244 | $ 43,868 |
| | | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for: | | |
| Interest | $ 1,939 | $ 3,218 |
| Income taxes | 4 | 28 |
| | | |
| NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Transfer of loans to real estate owned, net | $ 2,996 | $ 4,356 |
| Fair value adjustment to securities available for sale | (59) | 169 |
| Income tax effect related to fair value adjustment | 20 | (93) |

See notes to consolidated financial statements.

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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 three months ended June 30, 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 terminated 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 June 30, 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.

| | Three Months Ended June 30, 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 | - | | - | 122,000 | | 3.82 |
| Options exercised | - | | - | - | | - |
| Forfeited | - | | - | (8,000) | | 10.82 |
| Expired | - | | - | (19,996) | | 5.50 |
| Balance, end of period | 465,700 | $ | 9.35 | 465,700 | $ | 9.35 |

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

| | Three Months Ended June 30, 2010 | Year Ended March 31, 2010 |
|---|---|---|
| Stock options fully vested and expected to vest: | | |
| Number | 458,475 | 458,475 |
| Weighted average exercise price | $ 9.42 | $ 9.42 |
| Aggregate intrinsic value (1) | $ - | $ - |
| Weighted average contractual term of options (years) | 6.44 | 6.69 |
| Stock options fully vested and currently exercisable: | | |
| Number | 335,700 | 334,200 |
| Weighted average exercise price | $ 11.28 | $ 11.28 |
| Aggregate intrinsic value (1) | $ - | $ - |
| Weighted average contractual term of options (years) | 5.46 | 5.70 |

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

Stock-based compensation expense related to stock options for the three months ended June 30, 2010 and 2009 was approximately $39,000 and $12,000, respectively. As of June 30, 2010, there was approximately $35,000 of unrecognized compensation expense related to unvested stock options, which will be recognized over the remaining vesting periods of the underlying stock options through May 2012.

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. There were no stock options granted during the three months ended June 30, 2010.

| | Risk Free Interest Rate | Expected Life (years) | Expected Volatility | Expected Dividends |
|---|---|---|---|---|
| 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 months ended June 30, 2010 and 2009, stock options for 466,000 and 368,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive.

| | Three Months Ended June 30, 2010 | 2009 |
|---|---|---|
| Basic EPS computation: | | |
| Numerator-net income | $ 1,765,000 | $ 343,000 |
| Denominator-weighted average common shares outstanding | 10,735,946 | 10,711,313 |
| Basic EPS | $ 0.16 | $ 0.03 |
| Diluted EPS computation: | | |
| Numerator-net income | $ 1,765,000 | $ 343,000 |
| Denominator-weighted average common shares outstanding | 10,735,946 | 10,711,313 |
| Effect of dilutive stock options | - | - |
| Weighted average common shares and common stock equivalents | 10,735,946 | 10,711,313 |
| Diluted EPS | $ 0.16 | $ 0.03 |

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 |
|---|---|---|---|---|
| June 30, 2010 | | | | |
| Municipal bonds | $ 511 | $ 51 | $ - | $ 562 |
| | | | | |
| March 31, 2010 | | | | |
| Municipal bonds | $ 517 | $ 56 | $ - | $ 573 |

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

| June 30, 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 | 511 | 562 |
| Due after ten years | - | - |
| Total | $ 511 | $ 562 |

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

| Amortized | Gross | Gross | Estimated |
|---|---|---|---|

| | | Cost | | Unrealized Gains | | Unrealized Losses | | Fair Value |
|---|---|---|---|---|---|---|---|---|
| June 30, 2010 | | | | | | | | |
| Trust preferred | $ | 2,974 | $ | - | $ | (1,980) | $ | 994 |
| Agency securities | | 5,000 | | 16 | | - | | 5,016 |
| Municipal bonds | | 717 | | - | | - | | 717 |
| Total | $ | 8,691 | $ | 16 | $ | (1,980) | $ | 6,727 |
| | | | | | | | | |
| 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):

| June 30, 2010 | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Due in one year or less | $ - | $ - |
| Due after one year through five years | 5,000 | 5,016 |
| Due after five years through ten years | - | - |
| Due after ten years | 3,691 | 1,711 |
| Total | $ 8,691 | $ 6,727 |

Investment securities with an amortized cost of $500,000 and $499,000 and a fair value of $502,000 and $502,000 at June 30, 2010 and March 31, 2010, respectively, were pledged as collateral for treasury tax and loan funds held by the Bank. Investment securities with an amortized cost of $850,000 and $2.8 million and a fair value of $853,000 and $2.9 million at June 30, 2010 and March 31, 2010, respectively, 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 |
| June 30, 2010 | | | | | | |
| Trust preferred | $ - | $ - | $ 994 | $ (1,980) | $ 994 | $ (1,980) |
| | | | | | | |
| March 31, 2010 | | | | | | |
| Trust preferred | $ - | $ - | $ 1,042 | $ (1,932) | $ 1,042 | $ (1,932) |

During the three months ended June 30, 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.

## 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 |
|---|---|---|---|---|
| June 30, 2010 | | | | |
| | $ 85 | $ 3 | $ - | $ 88 |

| | | | | |
|---|---|---|---|---|
| FHLMC mortgage-backed securities | | | | |
| FNMA mortgage-backed securities | 118 | 5 | - | 123 |
| Total | $ 203 | $ 8 | $ - | $ 211 |
| | | | | |
| 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):

| June 30, 2010 | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Due in one year or less | $ - | $ - |
| Due after one year through five years | 8 | 8 |
| Due after five years through ten years | - | - |
| Due after ten years | 195 | 203 |
| Total | $ 203 | $ 211 |

Mortgage-backed securities held to maturity with an amortized cost of $82,000 and $136,000 and a fair value of $85,000 and $138,000 at June 30, 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 $103,000 and $105,000 and a fair value of $108,000 and $107,000 at June 30, 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):

| June 30, 2010 | | Amortized Cost | | Gross Unrealized Gains | | Gross Unrealized Losses | | Estimated Fair Value |
|---|---|---|---|---|---|---|---|---|
| Real estate mortgage investment conduits | $ | 501 | $ | 19 | $ | - | $ | 520 |
| FHLMC mortgage-backed securities | | 1,925 | | 61 | 7 | - | | 1,986 |
| FNMA mortgage-backed securities | | 46 | | 2 | | - | | 48 |
| Total | $ | 2,472 | $ | 82 | $ | - | $ | 2,554 |
| | | | | | | | | |
| 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):

| June 30, 2010 | | Amortized Cost | | Estimated Fair Value |
|---|---|---|---|---|
| Due in one year or less | $ | - | $ | - |
| Due after one year through five years | | 1,950 | | 2,013 |
| Due after five years through ten years | | 175 | | 187 |
| Due after ten years | | 347 | | 354 |
| Total | $ | 2,472 | $ | 2,554 |

There were no mortgage-backed securities available for sale pledged as collateral for Federal Home Loan Bank of Seattle ("FHLB") advances at June 30, 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 $46,000 and $51,000 and a fair value of $49,000 and $53,000 at June 30, 2010 and March 31, 2010, respectively, were pledged as collateral for government public funds held by the Bank.

## 7. LOANS RECEIVABLE

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

| | June 30, 2010 | March 31, 2010 |
|---|---|---|
| Commercial and construction | | |
| Commercial business | $ 106,002 | $ 108,368 |
| Other real estate mortgage | 455,106 | 459,178 |
| Real estate construction | 68,717 | 75,456 |
| Total commercial and construction | 629,825 | 643,002 |
| | | |
| Consumer | | |
| Real estate one-to-four family | 84,956 | 88,861 |
| Other installment | 2,579 | 2,616 |
| Total consumer | 87,535 | 91,477 |
| | | |
| Total loans | 717,360 | 734,479 |
| | | |
| Less: Allowance for loan losses | 19,565 | 21,642 |
| Loans receivable, net | $ 697,795 | $ 712,837 |

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.

Most of the Bank's business activity is with customers located in the states of Washington and Oregon. Loans and extensions of credit outstanding at one time to one borrower are generally limited by federal regulation to 15% of the Bank's shareholders' equity, excluding accumulated other comprehensive loss. As of June 30, 2010 and March 31, 2010, the Bank had no loans to any one borrower in excess of the regulatory limit.

8. ALLOWANCE FOR LOAN LOSSES

A reconciliation of the allowance for loan losses is as follows (in thousands):

| | Three Months Ended June 30, | |
|---|---|---|
| | 2010 | 2009 |
| Beginning balance | $ 21,642 | $ 16,974 |
| Provision for losses | 1,300 | 2,350 |
| Charge-offs | (3,392) | (1,599) |
| Recoveries | 15 | 51 |
| Ending balance | $ 19,565 | $ 17,776 |

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

| | Three Months Ended June 30, | |
|---|---|---|
| | 2010 | 2009 |
| Beginning balance | $ 185 | $ 296 |
| Net change in allowance for unfunded loan commitments | 5 | (20) |
| Ending balance | $ 190 | $ 276 |

Loans on which the accrual of interest has been discontinued were $33.0 million and $36.0 million at June 30, 2010 and March 31, 2010, respectively. Interest income foregone on non-accrual loans was $612,000 and $804,000 during the three months ended June 30, 2010 and 2009, respectively.

At June 30, 2010 and March 31, 2010, impaired loans were $42.5 million and $37.8 million, respectively. At June 30, 2010 and March 31, 2010, $23.5 million and $30.1 million, respectively, of impaired loans had specific valuation allowances of $5.4 million and $8.0 million, respectively. For these same dates, $19.0 million and $7.7 million, respectively, did not require a specific reserve. The balance of the allowance for loan losses in excess of these specific reserves is available to absorb the inherent losses from all other loans in the portfolio. At June 30, 2010, the Company had one trouble debt restructuring totaling $1.0 million, which was on accrual status. There were no trouble debt restructurings at March 31, 2010.

The average balance in impaired loans was $40.1 million and $36.4 million during the three months ended June 30, 2010 and the year ended March 31, 2010, respectively. The related amount of interest income recognized on loans that were impaired was $176,000 and $44,000 during the three months ended June 30, 2010 and 2009, respectively. At June 30, 2010 and March 31, 2010 there were no loans 90 days past due and still accruing interest, respectively.

9. GOODWILL

The majority of goodwill and intangibles generally arise from business combinations accounted for under the purchase method. Goodwill and other intangibles deemed to have indefinite lives generated from purchase business combinations are not subject to amortization and are instead tested for impairment no less than annually. The Company has one reporting unit, the Bank, for purposes of computing goodwill.

During the third quarter of fiscal 2010, the Company performed its annual goodwill impairment test to determine whether an impairment of its goodwill asset exists. The goodwill impairment test involves a two-step process. The first step is a comparison of the reporting unit's fair value to its carrying value. If the reporting unit's fair value is less than its carrying value, the Company would be required to progress to the second step. In the second step the Company calculates the implied fair value of goodwill. The GAAP standards with respect to goodwill require that the Company compare the implied fair value of goodwill to the carrying amount of goodwill on the Company's balance sheet. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the Company is allocated to all of the Company's individual assets and liabilities, including any unrecognized identifiable intangible assets, as if the Company had been acquired in a business combination and the estimated fair value of the Company is the price paid to acquire it. The allocation process is performed only for purposes of determining the amount of goodwill impairment, as no assets or liabilities are written up or down, nor are any additional unrecognized identifiable intangible assets recorded as a part of this process. The results of the Company's step one test indicated that the reporting unit's fair value was less than its carrying value and therefore the Company performed a step two analysis. After the step two analysis was completed, the Company determined the implied fair value of goodwill was greater than the carrying value on the Company's balance sheet and no goodwill impairment existed; however, no assurance can be given that the Company's goodwill will not be written down in future periods.

An interim impairment test was not deemed necessary as of June 30, 2010, due to there not being a significant change in the reporting unit's assets and liabilities, the amount that the fair value of the reporting unit exceeded the carrying value as of the most recent valuation, and because the Company determined that, based on an analysis of events that have occurred and circumstances that have changed since the most recent valuation date, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is remote.

FEDERAL HOME LOAN BANK ADVANCES

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

| | June 30, 2010 | March 31, 2010 |
|---|---|---|
| Federal Home Loan Bank advances | $ 28,000 | $ 23,000 |
| Weighted average interest rate: | 0.81% | 0.64% |

The FHLB borrowings at June 30, 2010 consisted of a Cash Management Advance with a rate set daily by the FHLB. This advance is scheduled to mature during August 2010.

## 10. FEDERAL RESERVE BANK ADVANCES

Federal Reserve Bank of San Francisco ("FRB") borrowings are summarized as follows (dollars in thousands):

| | June 30, 2010 | March 31, 2010 |
|---|---|---|
| Federal Reserve Bank of San Francisco advances | $ - | $ 10,000 |
| Weighted average interest rate: | -% | 0.50% |

## 11. JUNIOR SUBORDINATED DEBENTURE

At June 30, 2010, the Company had two wholly-owned subsidiary grantor trusts which 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 indenture. 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 plus any accrued but unpaid interest to the redemption date.

The Debentures issued by the Company to the grantor trusts, totaling $22.7 million, are reflected in the Consolidated Balance Sheets in the liabilities section at June 30, 2010, under the caption "junior subordinated debentures." The common securities issued by the grantor trusts were purchased by the Company, and the Company's investment in the common securities of $681,000 at June 30, 2010 and March 31, 2010, is included in prepaid expenses and other assets in the Consolidated Balance Sheets. The Company records interest expense on the Debentures in the Consolidated Statements of Income.

The following table is a summary of the terms of the current Debentures at June 30, 2010 (in thousands):

| Issuance Trust | Issuance Date | | Amount Outstanding | Rate Type | Initial Rate | Rate | Maturing Date |
|---|---|---|---|---|---|---|---|
| Riverview Bancorp Statutory Trust I | 12/2005 | $ | 7,217 | Variable (1) | 5.88% | 1.90% | 3/2036 |
| Riverview Bancorp Statutory Trust II | 06/2007 | | 15,464 | Fixed (2) | 7.03% | 7.03% | 9/2037 |
| | | $ | 22,681 | | | | |

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

(2) The trust preferred securities bear a fixed quarterly interest rate for 60 months, at which time the rate begins to float on a quarterly basis based on the three-month LIBOR plus 1.35% thereafter until maturity.

12. FAIR VALUE MEASUREMENT

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

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

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

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

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

The following table presents assets that are measured at fair value on a recurring basis (in thousands).

| | | Fair value measurements at June 30, 2010, using | | |
|---|---|---|---|---|
| | Fair value June 30, 2010 | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Investment securities available for sale | | | | |
| Trust preferred | $ 994 | $ - | $ - | $ 994 |
| Agency securities | 5,016 | - | 5,016 | - |
| Municipal bonds | 717 | - | 717 | - |
| Mortgage-backed securities available for sale | | | | |
| Real estate mortgage investment conduits | 520 | - | 520 | - |
| FHLMC mortgage-backed securities | 1,986 | - | 1,986 | - |
| FNMA mortgage-backed securities | 48 | - | 48 | - |
| Total recurring assets measured at fair value | $ 9,281 | $ - | $ 8,287 | $ 994 |

The following tables presents a reconciliation of assets that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended June 30, 2010 (in thousands). There were no transfers of assets in to or out of Level 3 for the three months ended June 30, 2010.

| | For the Three Months Ended June 30, 2010 Available for sale securities |
|---|---|
| Balance at March 31, 2010 | $ 1,042 |
| Transfers in to Level 3 | - |
| Included in earnings (1) | - |
| Included in other comprehensive income | (48) |
| Balance at June 30, 2010 | $ 994 |

(1) Included in other non-interest income

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

Investments and Mortgage-Backed Securities – Investment securities available-for-sale are included within Level 1 of the hierarchy when quoted prices in an active market for identical assets are available. The Company uses a third party pricing service to assist the Company in determining the fair value of its Level 2 securities, which incorporates pricing models and/or quoted prices of investment securities with similar characteristics. Our Level 3 assets consist of a single pooled trust preferred security. The fair value for this security was estimated using an income approach valuation technique (using cash flows and present value techniques). Significant unobservable inputs used for this security included selecting an appropriate discount rate, default rate and repayment assumptions.

The following table represents certain loans and real estate owned ("REO") which were marked down to their fair value using fair value measures for the three months ended June 30, 2010. The following are assets that are measured at fair value on a nonrecurring basis (in thousands).

| | | Fair value measurements at June 30, 2010, using | | |
|---|---|---|---|---|
| | Fair value June 30, 2010 | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Impaired loans | $ 13,414 | $ - | $ - | $ 13,414 |
| Real estate owned | 5,624 | - | - | 5,624 |
| Total nonrecurring assets measured at fair value | $ 19,038 | $ - | $ - | $ 19,038 |

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

Impaired loans – A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loans' observable market price or the fair market value of the collateral. A significant portion of the Bank's impaired loans is measured using the fair market value of the collateral.

Real estate owned – REO is real property that the Bank has taken ownership of in partial or full satisfaction of a loan or loans. REO is recorded at the lower of the carrying amount of the loan or fair value less estimated costs to sell. This amount becomes the property's new basis. Any write downs based on the property's fair value less estimated costs to sell at the date of acquisition are charged to the allowance for loan losses. Management periodically reviews REO in an effort to ensure the property is carried at the lower of its new basis or fair value, net of estimated costs to sell.

## 13. NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued an accounting standards update on fair value measurements and disclosures, which focuses on improving disclosures about fair value measurement. The standards update requires new disclosures about transfers in and out of Level 1 and Level 2 fair value measurements and the activity in Level 3 fair value measurements (i.e. purchases, sales, issuances, and settlements). This accounting standards update also amended disclosure requirements related to the level of disaggregation of assets and liabilities, as well as disclosures about input and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements. The new guidance became effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this accounting standard is not expected to have a material impact on the Company's financial position or results of operations.

In July 2010, the FASB issued an accounting standards update that improves the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The guidance is effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of this accounting standard is not expected to have a material impact on the Company's financial position or results of operations

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with accounting guidance on the requirements of disclosures about fair value of financial instruments. The Company, using available market information and appropriate valuation methodologies, has determined the estimated fair value amounts. However, considerable judgment is necessary to interpret market data in the development of the estimates of fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The estimated fair value of financial instruments is as follows (in thousands):

| | June 30, 2010 | | March 31, 2010 | |
|---|---|---|---|---|
| | Carrying Value | Fair value | Carrying Value | Fair Value |
| Assets: | | | | |
| Cash | $ 53,244 | $ 53,244 | $ 13,587 | $ 13,587 |
| Investment securities held to maturity | 511 | 562 | 517 | 573 |
| Investment securities available for sale | 6,727 | 6,727 | 6,802 | 6,802 |
| Mortgage-backed securities held to maturity | 203 | 211 | 259 | 265 |
| Mortgage-backed securities available for sale | 2,554 | 2,554 | 2,828 | 2,828 |
| Loans receivable, net | 697,795 | 617,558 | 712,837 | 631,706 |
| Loans held for sale | 667 | 667 | 255 | 255 |
| Mortgage servicing rights | 493 | 871 | 509 | 1,015 |
| | | | | |
| Liabilities: | | | | |
| Demand – savings deposits | 410,268 | 410,268 | 396,342 | 396,342 |
| Time deposits | 305,305 | 308,145 | 291,706 | 294,337 |
| | | | | |
| FHLB advances | 28,000 | 27,994 | 23,000 | 23,006 |
| FRB advances | - | - | 10,000 | 9,998 |
| Junior subordinated debentures | 22,681 | 12,908 | 22,681 | 14,124 |

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

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

Cash – Fair value approximates the carrying amount.

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

Loans Receivable and Loans Held for Sale – Loans were priced using comparable market statistics. The loan portfolio was segregated into various categories and a weighted average valuation discount that approximated similar loan sales data from the FDIC was applied to each category.

Mortgage Servicing Rights ("MSRs") – The fair value of MSRs was determined using the Company's model, which incorporates the expected life of the loans, estimated cost to service the loans, servicing fees received and other factors. The Company calculates MSRs fair value by stratifying MSRs based on the predominant risk characteristics that include the underlying loan's interest rate, cash flows of the loan, origination date and term. Key economic assumptions that vary due to changes in market interest rates are used to determine the fair value of the MSRs and include expected prepayment speeds, which impact the average life of the portfolio, annual service cost, annual ancillary income and the discount rate used in valuing the cash flows. At June 30, 2010, the MSRs fair value was estimated using a range of prepayment speed assumptions that ranged from 100 to 874.

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

Federal Home Loan Bank Advances – The fair value for FHLB advances was based on the discounted cash flow method. The discount rate was estimated using rates currently available from the FHLB.

Federal Reserve Bank Advances – The fair value for FRB advances was based on the discounted cash flow method. The discount rate was estimated using rates currently available from the FRB.

Junior Subordinated Debentures – The fair value of the Debentures was based on the discounted cash flow method. The discount rate was estimated using rates currently available for the Debentures.

Off-Balance Sheet Financial Instruments – The estimated fair value of loan commitments approximates fees recorded associated with such commitments as of June 30, 2010 and March 31, 2010. Since the majority of the Company's off-balance-sheet instruments consist of non-fee producing, variable rate commitments, the Bank has determined they do not have a distinguishable fair value.

## 15. COMMITMENTS AND CONTINGENCIES

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

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

At June 30, 2010, a schedule of significant off-balance sheet commitments at June 30, 2010 are listed below (in thousands):

| | | Contract or Notional Amount |
|---|---|---|
| Commitments to originate loans: | | |
| Adjustable-rate | $ | 1,504 |
| Fixed-rate | | 5,184 |
| Standby letters of credit | | 866 |
| Undisbursed loan funds, and unused lines of credit | | 81,517 |
| Total | $ | 89,071 |

At June 30, 2010, the Company had firm commitments to sell $2.0 million of residential loans to the FHLMC. Typically, these agreements are short term fixed rate commitments and no material gain or loss is likely.

Other Contractual Obligations. In connection with certain asset sales, the Bank typically makes representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, the Bank may have an obligation to repurchase the assets or indemnify the purchaser against loss. At June 30, 2010, loans under warranty totaled $114.3 million, which substantially represents the unpaid principal balance of the Company's loans serviced for FHLMC. The Bank believes that the potential for loss under these arrangements is remote. Accordingly, no contingent liability is recorded in the consolidated financial statements.

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

## 16. SUBSEQUENT EVENTS

On August 3, 2010 the Company announced that it had raised approximately $18 million from a follow-on public offering issuing 10,041,841 shares of common stock at $1.80 per share. The Company granted the underwriters a 30-day option to purchase up to an additional 15% of the shares sold to cover over-allotments, which was exercised on August 5, 2010. The Company intends to use the proceeds from the offering to support the growth and related capital needs of the Bank, with any remainder for general operating purposes.

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

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

Critical Accounting Policies

Critical accounting policies and estimates are discussed in our 2010 Form 10-K under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation – Critical Accounting Policies." That discussion highlights estimates the Company makes that involve uncertainty or potential for substantial change. There have not been any material changes in the Company's critical accounting policies and estimates as compared to the disclosure contained in the Company's 2010 Form 10-K.

Recent Developments

In January 2009, the Bank entered into a Memorandum of Understanding ("MOU") with the OTS. Under that agreement, the Bank must, among other things, develop a plan for achieving and maintaining a minimum Tier 1 Capital (Leverage) Ratio of 8% and a minimum Total Risk-Based Capital Ratio of 12%, compared to its current minimum required regulatory Tier 1 Capital (Leverage) Ratio of 4% and Total Risk-Based Capital Ratio of 8%. As of June 30, 2010, the Bank's leverage ratio was 9.78% (1.78% over the required minimum) and its total risk-based capital ratio was 12.61% (0.61% over the required minimum). The MOU also requires the Bank to: (a) remain in compliance with the minimum capital ratios contained in the business plan; (b) provide notice to and obtain a non-objection from the OTS prior to the Bank declaring a dividend; (c) maintain an adequate allowance for loan and lease losses; (d) engage an independent consultant to conduct a comprehensive evaluation of the Bank's asset quality; (e) submit a quarterly update to its written comprehensive plan to reduce classified assets, that is acceptable to the OTS; and (f) obtain written approval of the Loan Committee and the Board prior to the extension of credit to any borrower with a classified loan. For additional information relating to the Bank's regulatory capital requirements, see "Shareholders' Equity and Capital Resources" set forth below.

The Company also entered into a separate MOU agreement with the OTS. Under the agreement, the Company must, among other things support the Bank's compliance with its MOU issued in January 2009. The MOU also requires the Bank to: (a) provide notice to and obtain written non-objection from the OTS prior to the Company declaring a dividend or redeeming any capital stock or receiving dividends or other payments from the Bank; (b) provide notice to and obtain written non-objection from the OTS prior to the Company incurring, issuing, renewing or repurchasing any new debt; and (c) submit quarterly updates to its written operations plan and consolidated capital plan.

The Board and Bank management do not believe that either of these agreements have or will constrain the Bank's business plan and furthermore, believes that the Company and the Bank are currently in compliance with all of the requirements through its normal business operations. These requirements will remain in effect until modified or terminated by the OTS. For more information about the MOUs and their impact on the Company and the Bank, see "Item 1A, Risk Factors – Risks Associated to Our Business – We are required to comply with the terms of two memoranda of understanding and a supervisory letter directive issued by the OTS and lack of compliance could result in monetary penalties and /or additional regulatory actions."

Executive Overview

During 2008, the national and regional residential lending market experienced a notable slowdown. This downturn, which has continued into 2010, has negatively affected the economy in our market area. As a result, the Company has experienced a decline in the values of real estate collateral supporting its loan portfolio in general and construction real estate and land acquisition and development loans in particular, and experienced increased loan delinquencies and defaults. In response to these financial challenges, the Company has taken and is continuing to take a number of actions aimed at preserving existing capital, reducing its lending concentrations and associated capital requirements, and increasing liquidity. The tactical actions taken include, but are not limited to: focusing on reducing the amount of nonperforming assets, adjusting its balance sheet by reducing loans receivable, selling real estate owned, reducing controllable operating costs, increasing retail deposits while maintaining available secured borrowing facilities to improve liquidity and eliminating dividends to shareholders.

The Company's strategic plan includes targeting the commercial banking customer base in its primary market area, specifically small and medium size businesses, professionals and wealth building individuals. In pursuit of these goals, the

Company manages growth while striving to include a significant amount of commercial and commercial real estate loans in its portfolio. Significant portions of these commercial and commercial real estate loans adjustable rates, higher yields or shorter terms and higher credit risk than traditional fixed-rate mortgages. A related goal is to increase the proportion of personal and business checking account deposits used to fund these new loans. At June 30, 2010, checking accounts totaled $167.8 million, or 23.5% of our total deposit mix. The strategic plan also stresses increased emphasis on non-interest income, including increased fees for asset management and deposit service charges. The strategic plan is designed to enhance earnings, reduce interest rate risk and provide a more complete range of financial services to customers and the local communities the Company serves. The Company is well positioned to attract new customers and to increase its market share with seventeen branches including ten in Clark County, two in the Portland metropolitan area and three lending centers.

As a progressive, community-oriented financial institution, the Company emphasizes local, personal service to residents of its primary market area. The Company considers Clark, Cowlitz, Klickitat and Skamania counties of Washington and Multnomah, Clackamas and Marion counties of Oregon as its primary market area. The Company is engaged predominantly in the business of attracting deposits from the general public and using such funds in its primary market area to originate commercial, commercial real estate, multi-family real estate, real estate construction, residential real estate and consumer loans. Commercial, commercial real estate and real estate construction loans have grown to 87.8% of the loan portfolio at June 30, 2010, increasing the risk profile of the total loan portfolio. The Company’s recent strategy is to control balance sheet growth in order to improve its regulatory capital ratios, including the targeted reduction of residential construction related loans. Speculative construction loans represent $28.1 million, or 87.1% of the residential construction portfolio at June 30, 2010. These loan balances decreased 8.2% from the previous quarter and 40.2% from a year ago.  Land acquisition and development loans totaled $68.3 million at June 30, 2010, a decrease of 8.7% from the prior quarter and 22.2% from June 30, 2009.

The Company also operates a trust and financial services company, Riverview Asset Management Corp. (“RAMCorp”), located in downtown Vancouver, Washington.  Riverview Mortgage, a mortgage broker division of the Bank, originates mortgage loans for various mortgage companies predominantly in the Vancouver/Portland metropolitan areas, as well as for the Bank. The Business and Professional Banking Division, with two lending offices in Vancouver and one in Portland, offers commercial and business banking services.

Vancouver is located in Clark County, Washington, which is just north of Portland, Oregon. Many businesses are located in the Vancouver area because of the favorable tax structure and lower energy costs in Washington as compared to Oregon.  Companies located in the Vancouver area include Sharp Microelectronics, Hewlett Packard, Georgia Pacific, Underwriters Laboratory, Wafer Tech, Nautilus and Barrett Business Services, as well as several support industries.  In addition to this industry base, the Columbia River Gorge Scenic Area is a source of tourism, which has helped to transform the area from its past dependence on the timber industry.

Weak economic conditions and ongoing strains in the financial and housing markets which accelerated throughout 2008 and generally continued into 2010 presented an unusually challenging environment for banks. This has resulted in an increase in loan delinquencies and foreclosure rates, primarily in our residential construction and land development loan portfolios as compared to prior periods. Foreclosures and delinquencies are also being driven by investor speculation in many states, while job losses and depressed economic conditions have resulted in the higher levels of delinquent loans. The continued economic downturn, and more specifically the slowdown in residential real estate sales, has resulted in further uncertainty in the financial markets. This has been particularly evident in the Company’s need to provide for credit losses during these periods at significantly higher levels than its historical experience and has also affected its net interest income and other operating revenue and expenses. During the quarter-ended June 30, 2010, unemployment in Clark County decreased and unemployment in Portland, Oregon decreased during this same time period. In addition, several other indicators, including home values and housing inventory levels have shown improvements during the quarter ended June 30, 2010. According to the Washington State Employment Security Department, unemployment in Clark County decreased to 12.4% compared to 14.6% in

March 2010, 13.7% at December 2009, 12.7% in September 2009 and 12.6% in June 2009. According to the Oregon Employment Department, unemployment in Portland decreased during the quarter ended June 30, 2010 to 9.5% compared to 10.0% in March 2010, 10.4% in December 2009, 10.8% in September 2009 and 10.9% in June 2009. Home values at June 30, 2010 in the Company's market area remained lower than home values in 2009 and 2008, due in large part to an increase in volume of foreclosures and short sales. However, as noted above, home values have begun to stabilize in the past quarter after decreasing during the past fiscal year. According to the Regional Multiple Listing Services, inventory levels in Portland, Oregon have fallen to 7.3 months at June 2010 compared to 7.8 months at March 2010 and 8.2 months at June 2009. Inventory levels in Clark County have fallen to 6.8 months at June 2010 compared to 7.7 months at March 2010 and 7.9 months at June 2009. Closed home sales in Clark County increased 16.6% and 10.0% in June 2010 compared to March 2010 and June 2009, respectively. Closed home sales in Portland increased 11.8% and 13.3% in June 2010 compared to March 2010 and June 2009, respectively. Commercial real estate leasing activity in the Portland/Vancouver area has performed better than the residential real estate market, but it is generally affected by a slow economy later than other indicators. According to Norris Beggs Simpson, commercial vacancy rates in Clark County and Portland Oregon were approximately 18.6% and 23.9%, respectively as of June 30, 2010. During the past

27 months, the Company has experienced a decline in the values of real estate collateral underlying its loans, including certain of its construction real estate and land acquisition and development loans, has experienced increased loan delinquencies and defaults, and believes there are indications of potential increased loan delinquencies and defaults.

Operating Strategy

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

Focusing on Asset Quality. The Company is focused on monitoring existing performing loans, resolving nonperforming loans and selling foreclosed assets. The Company has aggressively sought to reduce its level of nonperforming assets through write-downs, collections, modifications and sales of nonperforming loans and real estate owned. The Company has taken proactive steps to resolve its nonperforming loans, including negotiating repayment plans, forbearances, loan modifications and loan extensions with borrowers when appropriate, and accepting short payoffs on delinquent loans, particularly when such payoffs result in a smaller loss than foreclosure. The Company also has added experienced personnel that monitors loans to enable the Company to better identify problem loans in a timely manner and reduce its exposure to a further deterioration in asset quality. Beginning in 2008, in connection with the downturn in real estate markets, the Company applied more conservative and stringent underwriting practices to new loans, including, among other things, increasing the amount of required collateral or equity requirements, reducing loan-to-value ratios and increasing debt service coverage ratios. Nonperforming assets decreased from $57.1 million at June 30, 2009 to $47.9 million at June 30, 2010. The Company has continued to reduce its exposure to land development and speculative construction loans, which represented $19.8 million or 60.1% of its nonperforming loans at June 30, 2010. The total land development and speculative construction loan portfolios declined to $96.4 million at June 30, 2010 compared to $105.4 million at March 31, 2010.

Improving Earnings by Expanding Product Offerings. The Company intends to prudently increase the percentage of its assets consisting of higher-yielding commercial real estate and commercial loans, which offer higher risk-adjusted returns, shorter maturities and more sensitivity to interest rate fluctuations. The Company also intends to selectively add additional products to further diversify revenue sources and to capture more of each customer's banking relationship by cross selling loan and deposit products and additional services to Bank customers, including services provided through RAMCorp to increase its fee income. Assets under management by RAMCorp. totaled $280.3 million at June 30, 2010. In December 2008, the Company began operating as a merchant bankcard "agent bank" facilitating credit and debit card transactions for business customers through an outside merchant bankcard processor. This allows the Company to underwrite and approve merchant bankcard applications and retain interchange income that, under its previous status as a "referral bank", was earned by a third party.

The Company continuously reviews new products and services to provide its customers more financial options. All new technology and services are generally reviewed for business development and cost saving purposes. Processing our own checks and check imaging has supported the Bank's increased service to customers and at the same time has increased efficiency. The Bank has implemented remote check capture at all of its branches and is in the process of implementing remote capture of checks on site for selected customers of the Bank. The Company continues to experience growth in customer use of its online banking services, which allows customers to conduct a full range of services on a real-time basis, including balance inquiries, transfers and electronic bill paying. The Company is in the process of upgrading its online banking product, which will allow its customers greater flexibility and convenience in conducting their online banking. The Company's online service has also enhanced the delivery of cash management services to commercial customers. During fiscal 2010, the Company enrolled in an Internet deposit listing service. Under this listing service, the Company may post time deposit rates on an internet site where institutional investors have the ability to deposit funds with the Company. The Company began offering Certificate of Deposit Account Registry Service (CDARS™) deposits to its customers during fiscal 2009. Through the CDARS program, customers can access FDIC insurance on deposits exceeding the $250,000 FDIC insurance limit. The Company also implemented Check 21 during fiscal 2009, which allows the Company to process checks faster and more efficiently.

Attracting Core Deposits and Other Deposit Products. The Company's strategic focus is to emphasize total relationship banking with its customers to internally fund its loan growth. The Company is also focused on reducing its reliance on other wholesale funding sources, including Federal Home Loan Bank of Seattle and Federal Reserve Bank of San Francisco advances, through the continued growth of core customer deposits. The Company believes that a continued focus on customer relationships will help to increase the level of core deposits and locally-based retail certificates of deposit. In addition to its retail branches, the Company maintains state of the art technology-based products, such as on-line personal financial management, business cash management, and business remote deposit products, that enable it to compete effectively with banks of all sizes. The Company recently increased its emphasis on enhancing its cash management product line with the hiring of an experienced cash management officer. The formation of a team consisting of this cash management officer and existing employees is expected to lead to an improved cash management product line for commercial customers. Total deposits have increased from $688.0 million at March 31, 2010 to $715.6 million at June 30, 2010. Advances from the Federal Home Loan Bank of Seattle and Federal Reserve Bank of San Francisco have decreased from $33.0 million at March 31, 2010 to $28.0 million at June 30, 2010.

Continued Expense Control. Beginning in fiscal 2009 and continuing into fiscal 2011, management has undertaken several initiatives to reduce non-interest expense and will continue to make it a priority to identify cost savings opportunities throughout all phases of the Company's operations. Beginning in fiscal 2009, the Company instituted expense control measures such as reducing many marketing expenses, cancelling certain projects and capital purchases, and reducing travel and entertainment expenditures. The Company also reduced its full-time equivalent employees to 232 at June 30, 2010 from 250 at June 30, 2009. During October 2009, a branch and a loan origination office were closed as a result of their failure to meet the Company's required growth standards. As a result of the reduction in personnel and closure of the offices the Company will save approximately $1.3 million per year.

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

Disciplined Franchise Expansion. The Company believes that opportunities currently exist within its current market area to grow its franchise. The Company anticipates organic growth, through its marketing efforts targeted to take advantage of the opportunities being created as a result of the consolidation of financial institutions that is occurring in its market area. The Company will also seek to grow its franchise through the acquisition of individual branches and FDIC-assisted whole bank transactions that meet its investment and market objectives. The Company has a proven ability to execute acquisitions, with two bank acquisitions in the past seven years. The Company expects to gradually expand its operations further in the Portland Oregon metropolitan area, which has a population of approximately two million people. The Company will continue to be disciplined as it pertains to future acquisitions and de novo branching focusing on the Pacific Northwest markets it knows and understands. The Company currently has no arrangements, agreements or understandings related to any acquisition or de novo branching.

Financial Highlights. Net income for the three months ended June 30, 2010 was $1.8 million, or $0.16 per diluted share, compared to net income of $343,000, or $0.03 per diluted share, for the three months ended June 30, 2009. Net interest income after provision for loan losses increased $1.4 million to $7.7 million for the three months ended June 30, 2010 compared to $6.3 million for the same quarter last year. Non-interest income increased $133,000 to $2.2 million for the three months ended June 30, 2010 compared to $2.1 million for the same quarter last year. The increase is partially due to an other than temporary impairment ("OTTI") on an investment security taken during the three months ended June 30, 2009 totaling $258,000. There was no OTTI on the investment security for the quarter ended June 30, 2010. The increase in non-interest income can also be attributed to gains on sale of real estate owned properties. Non-interest expense decreased $723,000 to $7.3 million for the three months ended June 30, 2010 compared to $8.0 million for the same quarter last year. The decrease was primarily due to decreases in the FDIC insurance premiums of $274,000 and REO expenses of $443,000.

The annualized return on average assets was 0.84% for the three months ended June 30, 2010, compared to 0.15% for the three months ended June 30, 2009. For the same periods, the annualized return on average common equity was 8.19% compared to 1.52%, respectively. The efficiency ratio was 64.55% for the three months ended June 30, 2010 compared to 74.08% for the same period last year. The decrease in the efficiency ratio was primarily a result of the reduction in OTTI charges on an investment security as well as reduced professional fees and cost associated with REO properties.

Loan Composition

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

| June 30, 2010 | Commercial Business | Other Real Estate Mortgage | Real Estate Construction | Commercial & Construction Total |
|---|---|---|---|---|
| | | (in thousands) | | |
| Commercial business | $ 106,002 | $ - | $ - | $ 106,002 |
| Commercial construction | - | - | 36,440 | 36,440 |
| Office buildings | - | 90,116 | - | 90,116 |
| Warehouse/industrial | - | 47,381 | - | 47,381 |
| Retail/shopping centers/strip malls | - | 86,080 | - | 86,080 |
| Assisted living facilities | - | 35,317 | - | 35,317 |
| Single purpose facilities | - | 93,514 | - | 93,514 |
| Land | - | 68,272 | - | 68,272 |
| Multi-family | - | 34,426 | - | 34,426 |
| One-to-four family construction | - | - | 32,277 | 32,277 |
| Total | $ 106,002 | $ 455,106 | $ 68,717 | $ 629,825 |

| March 31, 2010 | Commercial Business | Other Real Estate Mortgage | Real Estate Construction | Commercial & Construction Total |
|---|---|---|---|---|
| | | (in thousands) | | |
| Commercial business | $ 108,368 | $ - | $ - | $ 108,368 |
| Commercial construction | - | - | 40,017 | 40,017 |
| Office buildings | - | 90,000 | - | 90,000 |
| Warehouse/industrial | - | 46,731 | - | 46,731 |
| Retail/shopping centers/strip malls | - | 80,982 | - | 80,982 |
| Assisted living facilities | - | 39,604 | - | 39,604 |
| Single purpose facilities | - | 93,866 | - | 93,866 |
| Land | - | 74,779 | - | 74,779 |
| Multi-family | - | 33,216 | - | 33,216 |
| | - | - | 35,439 | 35,439 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| One-to-four family construction | | | | | | | | |
| Total | $ | 108,368 | $ | 459,178 | $ | 75,456 | $ | 643,002 |

Comparison of Financial Condition at June 30, 2010 and March 31, 2010

Cash, including interest-earning accounts, totaled $53.2 million at June 30, 2010 compared to $13.6 million at March 31, 2010. The $39.7 million increase was attributed to additional reserve balances maintained at the FRB as part of the Company's overall liquidity strategy.

Investment securities available for sale totaled $6.7 million and $6.8 million at June 30, 2010 and March 31, 2010, respectively. The Company reviews investment securities for the presence of OTTI, taking into consideration current market conditions, extent and nature of change in fair value, issuer rating changes and trends, current analysts' evaluations, the Company's intentions or requirements to sell the investments, as well as other factors. For the quarter ended June 30, 2010, the Company determined that none of its investment securities required an OTTI charge. For additional information on our Level 3 fair value measurements see "Fair Value of Level 3 Assets" included below.

Loans receivable, net, totaled $697.8 million at June 30, 2010, compared to $712.8 million at March 31, 2010, a decrease of $15.0 million due primarily to continuing weak loan demand in the Company's primary market area and the Company's planned balance sheet restructuring strategy, which includes reducing the loan portfolio to preserve capital and liquidity. The Company continued its focus on growing commercial business and commercial real estate loans and reducing construction and land development loans. The total commercial real estate loan portfolio was $352.4 million as of June 30, 2010, compared to $351.2 million as of March 31, 2010. Of this total, 29% are owner occupied, and 71% are non-owner occupied as of June 30, 2010. A substantial portion of the loan portfolio is secured by real estate, either as primary or secondary collateral, located in the Company's primary market areas. Risks associated with loans secured by real estate include decreasing land and property values, increases in interest rates, deterioration in local economic conditions, tightening credit or refinancing markets, and a concentration of loans within any one area. The Company has no option ARM, teaser, or sub-prime residential real estate loans in its portfolio.

Deposit accounts increased $27.5 million to $715.6 million at June 30, 2010, compared to $688.0 million at March 31, 2010. The Company had $10.0 million in wholesale-brokered deposits in its deposit mix as of June 30, 2010. Core branch deposits (comprised of all demand, savings and interest checking accounts, plus all time deposits and excludes wholesale-brokered deposits, Trust account deposits, Interest on Lawyer Trust Accounts ("IOLTA"), public funds and internet based deposits) accounted for 90.3% of total deposits at June 30, 2010, compared to 94.8% at March 31, 2010. The Company plans to continue its focus on the growth of core deposits and on building customer relationships as opposed to obtaining deposits through the wholesale markets.

The Bank did not have any FRB advances at June 30, 2010 compared to $10.0 million at March 31, 2010. FHLB advances totaled $28.0 million at June 30, 2010 compared to $23.0 million at March 31, 2010. The $5.0 million decrease in total borrowings was attributable to the Company's increase in deposit balances, coupled with the planned decrease in loan balances. The Company's paydown of borrowings were offset by its decision to increase its cash reserves held at the FRB as part of its overall liquidity strategy.

Shareholders' Equity and Capital Resources

Shareholders' equity increased $1.8 million to $85.7 million at June 30, 2010 from $83.9 million at March 31, 2010. The increase in equity was mainly attributable to net income of $1.8 million for the three months ended June 30, 2010. Stock based compensation expense increased shareholders' equity while the net tax effect of adjustments to securities offset the overall increase in shareholder's equity.

The Bank is subject to various regulatory capital requirements administered by the OTS. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. As of June 30, 2010, the most recent notification from the OTS categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain the minimum capital ratios set forth in the table below. In the fourth quarter of fiscal 2009, the Bank entered into a MOU with the OTS, which requires, among other things, the Bank to maintain a minimum Tier 1 Capital (Leverage) Ratio of 8% and a minimum Total Risk-Based Capital Ratio of 12%. These higher capital requirements will remain in effect until the MOU with the Bank is terminated. Management believes the Bank met all capital adequacy requirements to which it was subject as of June 30, 2010.

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

| | Actual | | "Adequately Capitalized" | | "Well Capitalized" | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| June 30, 2010 | | | | | | |
| Total Capital: | | | | | | |
| (To Risk-Weighted Assets) | $ 90,967 | 12.61% | $ 57,693 | 8.0% | $ 72,117 | 10.0% |
| Tier 1 Capital: | | | | | | |
| (To Risk-Weighted Assets) | 81,889 | 11.36 | 28,847 | 4.0 | 43,270 | 6.0 |
| Tier 1 Capital (Leverage): | | | | | | |
| (To Adjusted Tangible Assets) | 81,889 | 9.78 | 33,490 | 4.0 | 41,863 | 5.0 |
| Tangible Capital: | | | | | | |
| (To Tangible Assets) | 81,889 | 9.78 | 12,559 | 1.5 | N/A | N/A |

| | Actual | | "Adequately Capitalized" | | "Well Capitalized" | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| March 31, 2010 | | | | | | |
| Total Capital: | | | | | | |
| (To Risk-Weighted Assets) | $ 89,048 | 12.11% | $ 58,835 | 8.0% | $ 73,544 | 10.0% |
| Tier 1 Capital: | | | | | | |
| (To Risk-Weighted Assets) | 79,801 | 10.85 | 29,417 | 4.0 | 44,126 | 6.0 |
| Tier 1 Capital (Leverage): | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| (To Adjusted Tangible Assets) | 79,801 | 9.84 | 32,453 | 4.0 | 40,566 | 5.0 |
| Tangible Capital: | | | | | | |
| (To Tangible Assets) | 79,801 | 9.84 | 12,170 | 1.5 | N/A | N/A |

Liquidity

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

Total deposits were $715.6 million at June 30, 2010 compared to $688.0 million at March 31, 2010. The growth in deposits; coupled with the decrease in the loan portfolio, provided the Company with the funds to reduce its secured borrowings from FHLB and FRB. The Company continues to focus on reducing its use of secured borrowings. During quarter ended June 30, 2010, the Company reduced its FHLB and FRB borrowings by $5.0 million to $28.0 million, compared to $33.0 million at March 31, 2010. The Company increased its cash reserves held at the FRB by $39.7 million.

Liquidity management is both a short- and long-term responsibility of the Company's management. The Company adjusts its investments in liquid assets based upon management's assessment of (i) expected loan demand, (ii) projected loan sales, (iii) expected deposit flows, (iv) yields available on interest-bearing deposits and (v) its asset/liability management program objectives. Excess liquidity is invested generally in interest-bearing overnight deposits and other short-term government and agency obligations. If the Company requires funds beyond its ability to generate them internally, it has additional diversified and reliable sources of funds with the FHLB, the FRB and other wholesale facilities. These sources of funds may be used on a long or short-term basis to compensate for reduction in other sources of funds or on a long-term basis to support lending activities. During the quarter ended June 30, 2010, we elected to defer regularly scheduled interest payments on our outstanding $22.7 million in Debentures to preserve our liquidity at the Bancorp.

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

The Company must maintain an adequate level of liquidity to ensure the availability of sufficient funds for loan originations, deposit withdrawals and continuing operations, satisfy other financial commitments and take advantage of investment opportunities. During the three months ended June 30, 2010, the Bank used its sources of funds primarily to fund loan commitments and to pay deposit withdrawals. At June 30, 2010, cash totaled $53.2 million, or 6.2% of total assets. The Bank generally maintains sufficient cash and short-term investments to meet short-term liquidity needs; however, its primary liquidity management practice is to increase or decrease short-term borrowings, including FRB borrowings and FHLB advances. At June 30, 2010, the Bank had no advances from the FRB. The Bank has a borrowing capacity of $97.8 million from the FRB, subject to sufficient collateral. At June 30, 2010, advances from the FHLB of Seattle totaled $28.0 million under an available credit facility of $147.0 million, limited to sufficient collateral and stock investment. At June 30, 2010, the Bank had sufficient unpledged collateral to allow it to utilize its available borrowing capacity from the FRB and the FHLB. Borrowing capacity may, however, fluctuate based on acceptability and risk rating of loan collateral and counterparties could adjust discount rates applied to such collateral at their discretion.

An additional source of wholesale funding includes brokered certificate of deposits. While the Company has brokered deposits from time to time, the Company historically has not relied on brokered deposits to fund its operations. At June 30, 2010, wholesale-brokered deposits totaled $10.0 million. The Bank also participates in the CDARS product, which allows the Bank to accept deposits in excess of the FDIC insurance limit for that depositor and obtain “pass-through” insurance for the total deposit. The Bank’s reciprocal CDARS balance was $34.1 million, or 4.8% of total deposits, and $31.9 million, or 4.6% of total deposits, at June 30, 2010 and March 31, 2010, respectively. With news of bank failures and increased levels of distress in the financial services industry and growing customer concern with FDIC insurance limits, customer interest in, and demand for, CDARS has continued to be evident with continued renewals of existing CDARS deposits. On June 9, 2009, the OTS informed the Bank that it was placing a restriction on the Bank’s ability to increase its brokered deposits, including CDARS deposits, to no more than 10% of total deposits. The combination of all the Bank’s funding sources, gives the Bank additional available liquidity of $305.9 million, or 35.4% of total assets, at June 30, 2010.

Under the Temporary Liquidity Guarantee Program, all noninterest-bearing transaction accounts, IOLTA accounts, and certain NOW accounts are fully guaranteed by the FDIC for the entire amount in the account through December 31, 2010. The Bank has elected to participate in this program at an additional cost to the Bank. Other deposits maintained at the Bank are insured by the FDIC up to $250,000 per account owner.

At June 30, 2010, the Company had commitments to extend credit of $89.1 million. The Company anticipates that it will have sufficient funds available to meet current loan commitments. Certificates of deposits that are scheduled to mature in less than one year totaled $198.2 million. Historically, the Bank has been able to retain a significant amount of its deposits as they mature. Offsetting these cash outflows are scheduled loan maturities of less than one year totaling $217.0 million at June 30, 2010.

Sources of capital and liquidity for the Company include distributions from the Bank and the issuance of debt or equity securities. Dividends and other capital distributions from the Bank are subject to regulatory restrictions and approval. In the first quarter of fiscal 2011, the Company elected to defer regularly scheduled interest payments on its Debentures, which in turn, restricts the Company's ability to pay dividends on its common stock.

Asset Quality

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

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

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

The allowance for loan losses was $19.6 million or 2.73% of total loans at June 30, 2010 compared to $21.6 million or 2.95% of total loans at March 31, 2010. The decreased allowance for loan losses was due to charge-offs exceeding the provision for loan losses recognized during the quarter. These charge-offs primarily were for loans that were reserved for in previous quarters. Nonperforming loans were $33.0 million at June 30, 2010 compared to $36.0 million at March 31, 2010. Classified loans were $57.2 million at June 30, 2010 compared to $52.2 million at March 31, 2010. The balance of the classified loans continues to be concentrated in the land development and speculative construction categories, which represent 27.0% and 27.7% respectively, of the balance at June 30, 2010. The increase in classified loans reflects the continuing weak economic conditions, which have significantly affected homebuilders and developers. The coverage ratio of allowance for loan losses to nonperforming loans was 59.4% at June 30, 2010 compared to 60.1% at March 31, 2010.

Management's evaluation of the allowance for loan losses is based on ongoing, quarterly assessments of the known and inherent risks in the loan portfolio. Loss factors are based on the Company's historical loss experience with additional consideration and adjustments made for changes in economic conditions, changes in the amount and composition of the loan portfolio, delinquency rates, changes in collateral values, seasoning of the loan portfolio, duration of current business cycle, a detailed analysis of impaired loans and other factors as deemed appropriate. These factors are evaluated on a quarterly basis. Loss rates used by the Company are impacted as changes in these risk factors increase or decrease from quarter to quarter. Management also considers bank regulatory examination results and findings of internal credit examiners in its quarterly evaluation of the allowance for loan losses. At June 30, 2010, the Company identified $29.5 million, or 89.5% of its nonperforming loans, as impaired and performed a specific valuation analysis on each loan resulting in a specific reserve of $4.2 million, or 14.3% of the nonperforming loans on which a specific analysis was performed. Based on the results of these specific valuation analyses, the Company's allowance for loan losses did not decrease proportionately to the decrease in the nonperforming loan balances. The Company believes the low amount of specific reserves required for these nonperforming loans reflects not only the Bank's underwriting standards, but also recent loan charge-offs.

The problem loans identified by the Company have continued to remain concentrated in speculative construction loans and land acquisition and development loans. Management's recent analysis of the allowance for loan losses year has placed greater emphasis on the Company's construction and land development loan portfolios and the effect of various factors such as geographic and loan type concentrations. Management has focused on managing these portfolios in an attempt to minimize the effects of declining home values and slower home sales, which have contributed to the increase in allowance for loan losses. At June 30, 2010, the Company's residential construction and land development loan portfolios were $32.3 million and $68.3 million, respectively. Substantially all of the loans in these two portfolios are located in the Company's market area. The percentage of nonperforming loans in the residential construction and land development portfolios was 31.4% and 14.2%, respectively. For the three months ended June 30, 2010, the charge-off ratio for the residential construction and land development portfolios was 14.0% and 7.1%, respectively. Based on its comprehensive analysis, management deemed the allowance for loan losses of $19.6 million at June 30, 2010 (2.73% of total loans and 59.4% of nonperforming loans) adequate to cover probable losses inherent in the loan portfolio.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts (principal and interest) due according to the contractual terms of the loan agreement. Impaired loans are generally carried at the lower of cost or net realizable value, which are determined by management based on a number of factors, including recent appraisals which are further reduced for estimated selling costs as a practical expedient, or by estimating the present value of expected future cash flows, discounted at the loan's effective interest rate. When the fair value measurement 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. As of June 30, 2010, the Company had identified $42.5 million of impaired loans. Because the significant majority of the impaired loans are collateral dependent, nearly all of our specific allowances are calculated on the fair value of the collateral. Of those impaired loans, $19.0 million have no specific valuation allowance as their estimated collateral value is equal to or exceeds the carrying costs. The remaining $23.5 million have specific valuation allowances totaling $5.4 million.

Generally, when a loan secured by real estate is initially measured for impairment and does not have an appraisal performed in the last three months, the Company obtains an updated market valuation by a third party appraiser that is reviewed by the Company. Subsequently, a third party appraiser appraises the asset annually. The evaluation may occur more frequently if management determines that there is an indication that the market value may have declined. Upon receipt and verification of the market valuation, the Company will record the loan at the lower of cost or market (less costs to sell) by recording a charge-off to the allowance for loan losses or by designating a specific reserve in accordance with GAAP.

Nonperforming assets, consisting of nonperforming loans and REO, totaled $47.9 million or 5.54% of total assets at June 30, 2010 compared to $49.3 million or 5.89% of total assets at March 31, 2010. Land acquisition and development loans and speculative construction loans, represented $19.8 million, or 60.12%, of the total nonperforming loan balance at June 30, 2010. The $33.0 million balance of nonperforming loans consisted of fifty-nine loans to forty borrowers, which includes eighteen commercial business loans totaling $7.0 million, five commercial real estate loan totaling $4.5 million, seventeen land acquisition and development loans totaling $9.7 million (the largest of which was $1.4 million), nine real estate construction loans totaling $10.1 million and ten residential real estate loans totaling $1.7 million. All of these loans are to borrowers located in Oregon and Washington with the exception of one land acquisition and development loans totaling $1.4 million to a Washington borrower who has property located in Southern California.

The $14.9 million balance of REO is comprised of single-family homes totaling $4.5 million, residential building lots totaling $5.5 million and land development property totaling $4.9 million. All of these properties are located in the Company's primary market area.

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The following table sets forth information regarding the Company's nonperforming assets. At June 30, 2010, the Company had one trouble debt restructuring totaling $1.0 million, which was on accrual status. There were no trouble debt restructurings at March 31, 2010.

| | June 30, 2010 | March 31, 2010 |
|---|---|---|
| | (dollars in thousands) | |
| Loans accounted for on a non-accrual basis: | | |
| Commercial business | $ 6,989 | $ 6,430 |
| Other real estate mortgage | 14,120 | 15,079 |
| Real estate construction | 10,148 | 11,826 |
| Real estate one-to-four family | 1,697 | 2,676 |
| Total | 32,954 | 36,011 |
| Accruing loans which are contractually past due 90 days or more | - | - |
| Total nonperforming loans | 32,954 | 36,011 |
| REO | 14,908 | 13,325 |
| Total nonperforming assets | $ 47,862 | $ 49,336 |
| Total nonperforming loans to total loans | 4.59% | 4.90% |
| Total nonperforming loans to total assets | 3.82 | 4.30 |
| Total nonperforming assets to total assets | 5.54 | 5.89 |

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

| June 30, 2010 | Northwest Oregon | Other Oregon | Southwest Washington | Other Washington | Other | Total |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| Commercial business | $ 1,121 | $ 2,689 | $ 3,179 | $ - | $ - | $ 6,989 |
| Commercial real estate | 3,060 | 245 | 1,150 | - | - | 4,455 |
| Land | - | 215 | 7,813 | 258 | 1,379 | 9,665 |
| Multi-family | - | - | - | - | - | - |
| Commercial construction | - | - | - | - | - | - |
| One-to-four family construction | 3,300 | 3,836 | 1,734 | 1,278 | - | 10,148 |
| Real estate one-to-four family | 250 | 310 | 1,125 | 12 | - | 1,697 |
| Consumer | - | - | - | - | - | - |
| Total nonperforming loans | 7,731 | 7,295 | 15,001 | 1,548 | 1,379 | 32,954 |
| REO | 3,205 | 2,317 | 5,322 | 4,064 | - | 14,908 |
| Total nonperforming assets | $ 10,936 | $ 9,612 | $ 20,323 | $ 5,612 | $ 1,379 | $ 47,862 |

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

| June 30, 2010 | Northwest Oregon | Other Oregon | Southwest Washington (Dollars in thousands) | Other Washington | Other | Total |
|---|---|---|---|---|---|---|
| Land development | $ 7,229 | $ 4,399 | $ 48,087 | $ 317 | $ 8,240 | $ 68,272 |
| Speculative construction | 4,152 | 10,836 | 11,847 | 1,278 | - | 28,113 |
| Total speculative and land construction | $ 11,381 | $ 15,235 | $ 59,934 | $ 1,595 | $ 8,240 | $ 96,385 |

Other loans of concern totaled $24.4 million at June 30, 2010 compared to $16.2 million at March 31, 2010. The $24.4 million consists of two real estate construction loans totaling $5.7 million, ten commercial business loans totaling $3.9 million, four commercial real estate loans totaling $8.9 million, five land acquisition loans totaling $5.8 million and one one-to-four family real estate loan totaling $72,000. Other loans of concern consist of loans which known information concerning possible credit problems with the borrowers or the cash flows of the collateral securing the respective loans has caused management to be concerned the ability of the borrowers to comply with present loan repayment terms, which may result in the future inclusion of such loans in the nonperforming category.

At June 30, 2010, loans delinquent 30 - 89 days were ––––––––––––1.78% of total loans compared to 1.93% at March 31, 2010. At June 30, 2010, the 30 - 89 days delinquency rate in the commercial business (“C&I”) portfolio was 1.63% while the delinquency rate in the commercial real estate (“CRE”) portfolio was 2.34%, representing two loans for $8.2 million. At that date, CRE loans represented the largest portion of the loan portfolio at 49.1% of total loans and C&I loans represented 14.8% of total loans. The 30 - 89 days delinquency rate for the land development loan portfolio at June 30, 2010 was 2.51%. The 30 - 89 days delinquency rate for our home equity line of credit portfolio was 0.99% at June 30, 2010.  At June 30, 2010, our residential construction loan portfolio had no delinquencies in the 30 - 89 days category.

Off-Balance Sheet Arrangements and Other Contractual Obligations

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

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

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

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

Goodwill Valuation

Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is presumed to have an indefinite useful life and is tested, at least annually, for impairment at the reporting unit level. The Company has one reporting unit, the Bank, for purposes of computing goodwill. All of the Company's goodwill has been allocated to this single reporting unit. The Company performs an annual review in the third quarter of each fiscal year, or more frequently if indications of potential impairment exist, to determine if the recorded goodwill is impaired. If the fair value exceeds the carrying value, goodwill at the reporting unit level is not considered impaired and no additional analysis is necessary. If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist and additional analysis must be performed to measure the amount of impairment loss, if any. The amount of impairment is determined by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the goodwill in the same manner as if the reporting unit was being acquired in a business combination. Specifically, the Company would allocate the fair value to all of the assets and liabilities of the reporting unit, including unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, the Company would record an impairment charge for the difference.

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

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. The Company estimates fair value using the best information available, including market information and a discounted cash flow analysis, which is also referred to as the income approach. The income approach uses a reporting unit's projection of estimated operating results and cash flows that is discounted using a rate that reflects current market conditions. The projection uses management's best estimates of economic and market conditions over the projected period including growth rates in loans and deposits, estimates of future expected changes in net interest margins and cash expenditures. The market approach estimates fair value by applying cash flow multiples to the reporting unit's operating performance. The multiples are derived from comparable publicly traded companies with similar operating and investment characteristics of the reporting unit. The Company validates its estimated fair value by comparing the fair value estimates using the income approach to the fair value estimates using the market approach.

The Company performed its annual goodwill impairment test during the quarter-ended December 31, 2009. As part of its process for performing the step one impairment test of goodwill, the Company estimated the fair value of the reporting unit utilizing the allocation of corporate value approach, the income approach and the market approach in order to derive an enterprise value of the Company. The allocation of corporate value approach applies the aggregate market value of the Company and divides it among the reporting units. A key assumption in this approach is the control premium applied to the aggregate market value. A control premium is utilized as the value of a company from the perspective of a controlling interest is generally higher than the widely quoted market price per share. The Company used an expected control premium of 30%, which was based on comparable transactional history. Assumptions used by the Company in its discounted cash flow model (income approach) included an annual revenue growth rate that approximated 5%, a net interest margin that approximated 4.5% and a return on assets that ranged from 0.14% to 1.09% (average of 0.74%). In addition to utilizing the above projections of estimated operating results, key assumptions used to determine the fair value estimate under the income approach was the discount rate of 14.4% utilized for our cash flow estimates and a terminal value estimated at 0.8

times the ending book value of the reporting unit. The Company used a build-up approach in developing the discount rate that included: an assessment of the risk free interest rate, the rate of return expected from publicly traded stocks, the industry the Company operates in and the size of the Company. In applying the market approach method, the Company selected eight publicly traded comparable institutions based on a variety of financial metrics (tangible equity, leverage ratio, return on assets, return on equity, net interest margin, nonperforming assets, net charge-offs, and reserves for loan losses) and other relevant qualitative factors (geographical location, lines of business, business model, risk profile, availability of financial information, etc.)  After selecting comparable institutions, the Company derived the fair value of the reporting unit by completing a comparative analysis of the relationship between their financial metrics listed above and their market values utilizing various market multiples.  The Company calculated a fair value of its reporting unit of $57 million using the corporate value approach, $66 million using the income approach and $68 million using the market approach.  Based on the results of the step one impairment analysis, the Company determined the second step must be performed.

The Company calculated the implied fair value of its reporting unit under the step two goodwill impairment test. Under this approach, the Company calculated the fair value for its unrecognized deposit intangible, as well as the remaining assets and liabilities of the reporting unit. The calculated implied fair value of the Company's goodwill exceeded the carrying value by $18.0 million. Significant adjustments were made to the fair value of the Company's loans receivable compared to its recorded value. Key assumptions used in its fair value estimate of loans receivable was the discount for comparable loan sales. The Company used a weighted average discount rate that approximated the discount for similar loan sales by the FDIC during the past year. The Company segregated its loan portfolio into seven categories, including performing loans, non-performing loans and sub-performing loans. The weighted average discount rates for these individual categories ranged from 3% (for performing loans) to 75% (for non-performing commercial loans). Based on results of the step two impairment test, the Company determined no impairment charge of goodwill was required.

An interim impairment test was not deemed necessary as of June 30, 2010, due to there not being a significant change in the reporting unit's assets and liabilities, the amount that the fair value of the reporting unit exceeded the carrying value as of the most recent valuation, and because the Company determined that, based on an analysis of events that have occurred and circumstances that have changed since the most recent valuation date, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is remote.

Even though the Company determined that there was no goodwill impairment during the third quarter of fiscal 2010, continued declines in the value of its stock price as well as values of other financial institutions, declines in revenue for the Bank beyond our current forecasts and significant adverse changes in the operating environment for the financial industry may result in a future impairment charge.

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

Fair Value of Level 3 Assets

The Company fair values certain assets that are classified as Level 3 under the fair value hierarchy established by accounting guidance. These Level 3 assets are valued using significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. These Level 3 financial assets include certain available for sale securities and loans measured for impairment, for which there is neither an active market for identical assets from which to determine fair value, nor is there sufficient, current market information about similar assets to use as observable, corroborated data for all significant inputs into a valuation model. Under these circumstances, the fair values of these Level 3 financial assets are determined using pricing models, discounted cash flow methodologies, valuation in accordance with accounting guidance related to accounting by creditors for impairment of a loan or similar techniques, for which the determination of fair value requires significant management judgment or estimation.

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

At June 30, 2010, the market for the Company’s single trust preferred pooled security was determined to be inactive in management’s judgment. This determination was made by the Company after considering the last known trade date for this specific security, the low number of transactions for similar types of securities, the low number of new issuances for similar securities, the significant increase in the implied liquidity risk premium for similar securities, the lack of information that is released publicly and discussions with third-party industry analysts. Due to the inactivity in the market, observable market data was not readily available for all significant inputs for this security. Accordingly, the trust preferred pooled security was classified as Level 3 in the fair value hierarchy. The Company utilized observable inputs where available, unobservable data and modeled the cash flows adjusted by an appropriate liquidity and credit risk adjusted discount rate using an income approach valuation technique in order to measure the fair value of the security. Significant unobservable inputs were used that reflect our assumptions of what a market participant would use to price the security. Significant unobservable inputs included selecting an appropriate discount rate, default rate and repayment assumptions. In selecting our assumptions, we considered the current rates for similarly rated corporate securities, market liquidity, the individual issuer's financial conditions, historical repayment information, and future expectations of the capital markets. The reasonableness of the fair value, and classification as a Level 3 asset, was validated through comparison of fair value as determined by two independent third-party pricing services.

Certain loans included in the loan portfolio were deemed impaired at June 30, 2010. Accordingly, loans measured for impairment were classified as Level 3 in the fair value hierarchy as there is no active market for these loans. Measuring impairment of a loan requires judgment and estimates, and the eventual outcomes may differ from those estimates. Impairment was measured by management based on a number of factors, including recent independent appraisals which are further reduced for estimated selling cost or as a practical expedient, by estimating the present value of expected future cash flows, discounted at the loan's effective interest rate.

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

For additional information on our Level 1, 2 and 3 fair value measurements see Note 13 – Fair Value Measurement in the Notes to Consolidated Financial Statements contained in Item 1 of this Form 10-Q for additional information.

Comparison of Operating Results for the Three Months Ended June 30, 2010 and 2009

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

Net interest income for the three months ended June 30, 2010 was $9.0 million, representing an increase of $338,000, or 3.89%, from $8.7 million during the same prior year period. Average interest-earning assets to average interest-bearing liabilities increased to 115.09% for the three month periods ended June 30, 2010 compared to 113.03% in the same prior year period. The net interest margin for the three months ended June 30, 2010 was 4.79% compared to 4.25% for the quarter-ended June 30, 2009.

The Company generally achieves better net interest margins in a stable or increasing interest rate environment as a result of the balance sheet being slightly asset interest rate sensitive. However, due to a number of loans in the loan portfolio with interest rate floors, net interest income will be negatively impacted in a rising interest rate environment until such time as the current rate exceeds these interest rate floors. Generally, interest rates on the Company’s interest-earning assets reprice faster than interest rates on the Company’s interest-bearing liabilities. In a decreasing interest rate environment, the Company requires time to reduce deposit interest rates to recover the decline in the net interest margin. As a result of the Federal Reserve’s monetary policy actions beginning in September 2007 to aggressively lower short-term federal funds rates approximately 36% of the Company’s loans immediately repriced down. The Company also immediately reduced the interest rate paid on certain interest-bearing deposits. Recently, the Company has made progress in further reducing its deposit and borrowing costs resulting in improved net interest income. Further reductions will be reflected in future deposit offerings and as existing deposits renew upon maturity. The amount and timing of these reductions is dependent on competitive pricing pressures, yield curve shape and changes in interest rate spreads.

Interest Income. Interest income for the three months ended June 30, 2010, was $11.3 million compared to $11.9 million for the same period in prior year. This represents a decrease of $590,000 for the three months ended June 30, 2010 compared to the same prior year periods. The decrease is due primarily to a decrease in average loan balances.

The average balance of net loans decreased $61.7 million to $729.9 million for the three months ended June 30, 2010 from $791.5 million for the same prior year period. The decrease in average loan balances was due to the Company’s recent effort to realign its balance sheet and reduce its overall loans receivable as part of the Company’s capital and liquidity strategies. The yield on net loans was 6.15% for the three months ended June 30, 2010 compared to 5.93% for the same three months in the prior year. During the three months ended June 30, 2010, the Company also reversed $77,000 of interest income on nonperforming loans compared to $346,000 for the same three months in the prior year.

Interest Expense. Interest expense decreased $928,000 to $2.3 million for the three months ended June 30, 2010, compared to $3.2 million for the three months ended June 30, 2009. The decrease in interest expense was primarily attributable to the Company’s efforts to reduce its costs of deposits following the Federal Reserve interest rate cuts described above. The weighted average interest rate on interest-bearing deposits decreased to 1.25% for the three months ended June 30, 2010 from 1.93% for the same period in the prior year. The weighted average cost of FHLB and FRB borrowings, Debentures and capital lease obligations increased to 3.37% for the three months ended June 30, 2010 from 1.25% for the same period in the prior year. For the three months ended June 30, 2010, the weighted average cost of the Company’s FRB borrowings was 0.50% compared to 0.68% for its FHLB borrowings.

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

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Average Balance | Interest and Dividends | Yield/Cost | Average Balance | Interest and Dividends | Yield/Cost |
| | (Dollars in thousands) | | | | | |
| Interest-earning assets: | | | | | | |
| Mortgage loans | $ 625,616 | $ 9,796 | 6.28% | $ 672,773 | $ 10,189 | 6.07% |
| Non-mortgage loans | 104,235 | 1,397 | 5.38 | 118,775 | 1,521 | 5.14 |
| Total net loans (1) | 729,851 | 11,193 | 6.15 | 791,548 | 11,710 | 5.93 |
| | | | | | | |
| Mortgage-backed securities (2) | 2,836 | 26 | 3.68 | 4,336 | 40 | 3.70 |
| Investment securities (2)(3) | 9,492 | 78 | 3.30 | 11,863 | 146 | 4.94 |
| Daily interest-bearing assets | 397 | - | - | 2,200 | 1 | 0.18 |
| Other earning assets | 12,547 | 15 | 0.48 | 11,482 | 13 | 0.45 |
| Total interest-earning assets | 755,123 | 11,312 | 6.15 | 821,429 | 11,910 | 5.82 |
| | | | | | | |
| Non-interest-earning assets: | | | | | | |
| Office properties and equipment, net | 16,393 | | | 19,406 | | |
| Other non-interest-earning assets | 67,854 | | | 68,871 | | |
| Total assets | $ 839,370 | | | $ 909,706 | | |
| | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Regular savings accounts | $ 32,264 | 44 | 0.55 | $ 28,566 | 39 | 0.55 |
| Interest checking accounts | 73,734 | 63 | 0.34 | 90,232 | 118 | 0.52 |
| Money market deposit accounts | 207,265 | 508 | 0.98 | 183,368 | 646 | 1.41 |
| Certificates of deposit | 296,993 | 1,286 | 1.74 | 258,161 | 1,891 | 2.94 |
| Total interest-bearing deposits | 610,256 | 1,901 | 1.25 | 560,327 | 2,694 | 1.93 |
| | | | | | | |
| Other interest-bearing liabilities | 45,843 | 385 | 3.37 | 166,413 | 520 | 1.25 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total interest-bearing liabilities | 656,099 | 2,286 | 1.40 | 726,740 | 3,214 | 1.77 |
| | | | | | | |
| Non-interest-bearing liabilities: | | | | | | |
| Non-interest-bearing deposits | 89,227 | | | 85,615 | | |
| Other liabilities | 7,613 | | | 6,870 | | |
| Total liabilities | 752,939 | | | 819,225 | | |
| Shareholders' equity | 86,431 | | | 90,481 | | |
| Total liabilities and shareholders' equity | $ 839,370 | | | $ 909,706 | | |
| | | | | | | |
| Net interest income | | $ 9,026 | | | $ 8,696 | |
| | | | | | | |
| Interest rate spread | | | 4.61% | | | 4.05% |
| | | | | | | |
| Net interest margin | | | 4.79% | | | 4.25% |
| | | | | | | |
| Ratio of average interest-earning assets to average interest-bearing liabilities | | | 115.09% | | | 113.03% |
| | | | | | | |
| Tax equivalent adjustment (3) | | $ 8 | | | $ 16 | |

(1) Includes non-accrual loans.

(2) For purposes of the computation of average yield on investments available for sale, historical cost balances were utilized;
therefore, the yield information does not give effect to changes in fair value that are reflected as a component of shareholders' equity.

(3) Tax-equivalent adjustment relates to non-taxable investment interest income. Interest and rates are presented on a fully taxable –equivalent basis under a tax rate of 34%.

The following table sets forth the effects of changing rates and volumes on net interest income of the Company for the quarter-ended June 30, 2010 compared to the quarter-ended June 30, 2009. Variances that were insignificant have been allocated based upon the percentage relationship of changes in volume and changes in rate to the total net change.

| | Three Months Ended June 30, 2010 vs. 2009 | | |
|---|---|---|---|
| | Increase (Decrease) Due to | | |
| (in thousands) | Volume | Rate | Total Increase (Decrease) |
| Interest Income: | | | |
| Mortgage loans | $ (735) | $ 342 | $ (393) |
| Non-mortgage loans | (193) | 69 | (124) |
| Mortgage-backed securities | (14) | - | (14) |
| Investment securities (1) | (25) | (43) | (68) |
| Daily interest-bearing | (1) | - | (1) |
| Other earning assets | 1 | 1 | 2 |
| Total interest income | (967) | 369 | (598) |
| | | | |
| Interest Expense: | | | |
| Regular savings accounts | 5 | - | 5 |
| Interest checking accounts | (19) | (36) | (55) |
| Money market deposit accounts | 77 | (215) | (138) |
| Certificates of deposit | 253 | (858) | (605) |
| Other interest-bearing liabilities | (567) | 432 | (135) |
| Total interest expense | (251) | (677) | (928) |
| Net interest income | $ (716) | $ 1,046 | $ 330 |

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

Provision for Loan Losses. The provision for loan losses for the three months ended June 30, 2010 was $1.3 million compared to $2.4 million for the same period in the prior year. The decrease in the provision for loan losses during the first quarter was primarily related to the stabilization of real estate values for the collateral supporting the Company's problem loans for the three months ended June 30, 2010. The loan loss provision remains elevated compared to historical levels and reflects the relatively high level of classified loans resulting primarily from the current ongoing economic conditions and uncertainty regarding its impact on the Company's loan portfolio along with the continued slowdown in residential real estate sales that is affecting among others, homebuilders and developers. Declining real estate values in recent years and slower loan sales have significantly impacted borrowers' liquidity and ability to repay loans, which in turn has led to an increase in delinquent and nonperforming construction and land development loans, as well as the additional loan charge-offs. However, in the past two quarters, the Company has experienced a decrease in the balance of its non-performing assets and a slowdown in the inflow of non-performing loans. Nonperforming loans generally reflect unique operating difficulties for the individual borrower; however, more recently the deterioration in the general economy has become a significant contributing factor to the increased levels of delinquencies and nonperforming loans. The ratio of allowance for loan losses to total net loans was 2.73% at June 30, 2010, compared to 2.28% at June 30, 2009.

Net charge-offs for the three months ended June 30, 2010 were $3.4 million compared to $1.5 million for the same period last year. Annualized net charge-offs to average net loans for the three-month period ended June 30, 2010 was 1.86% compared to 0.78% for the same respective periods in the prior year. Charge-offs increased during the periods primarily as a result of the write-downs of several loans that were reserved for in previous quarters. Land acquisition and development loans represented $1.4 million of the total charge-offs during the quarter, the largest of which was $493,000. Net charge-offs have remained concentrated in the residential construction and land development portfolios. Nonperforming loans were $33.0 million at June 30, 2010, a decline as compared to $36.0 million at March 31, 2010. The ratio of allowance for loan losses to nonperforming loans was 59.37% at June 30, 2010 a minimal decline as compared to 60.10% at March 31, 2010. See "Asset Quality" set forth above for additional information related to asset quality that management considers in determining the provision for loan losses.

Non-Interest Income. Non-interest income increased $133,000 for the three months ended June 30, 2010 compared to the same prior year period. The increase between the periods resulted from the absences of an OTTI charge for the three months ended June 30, 2010 as compared to a $258,000 OTTI charge for the three months ended June 30, 2009. In addition, gain on sales of REO totaled $147,000 for the three months ended June 30, 2010 compared to $14,000 for the same period in prior year. For the three months ended June 30, 2010 compared to the three months ended June 30, 2009, these increase noted above was offset by decreases in gain on sale of loans of $282,000 along with a decrease in mortgage broker fees of $200,000. The decrease in mortgage broker fees is primarily due to a decrease in refinancing activity for single-family homes.

Non-Interest Expense. Non-interest expense decreased $723,000 to $7.3 million for the three months ended June 30, 2010 compared to $8.0 million for the three months ended June 30, 2009. Management continues to focus on managing controllable costs as the Company proactively adjusts to a lower level of real estate loan originations. However, certain expenses remain out of the Company's control, including FDIC insurance premiums and REO expenses and write-downs. FDIC insurance premiums for the three months ended June 30, 2010 decreased $274,000 due to the same period in prior year included a special assessment charge of $417,000. REO expenses decreased $443,000 due in part to stabilizing values on existing REO properties resulting in lower charge-offs. Occupancy and depreciation expense decreased $92,000 for the three months ended June 30, 2010 compared to the same period in the prior year due to the closure of branch and lending center. Professional fees have also remained higher due to the ongoing costs associated with nonperforming assets.

Income Taxes. The provision for income taxes was $924,000 for the three months ended June 30, 2010 compared to $102,000 for the three months ended June 30, 2009. This increase was a result of the increase in income before taxes. The effective tax rate for three months ended June 30, 2010 was 34.4% compared to 22.9% for the three months ended June 30, 2009. The Company's effective tax rate remains lower than the statutory tax rate as a result of non-taxable income generated from investments in bank owned life insurance and tax-exempt municipal bonds.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has not been any material change in the market risk disclosures contained in the 2010 Form 10-K.

Item 4. Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13(a) - 15(e) of the Securities Exchange Act of 1934) was carried out as of June 30, 2010 under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management as of the end of the period covered by this report. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as in effect on June 30, 2010 were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Securities and Exchange Act of 1934 is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

In the quarter-ended June 30, 2010, the Company did not make any changes in its internal control over financial reporting that has materially affected, or is reasonably likely to materially affect these controls.

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

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

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Except as set forth below, there have been no material changes to the risk factors set forth in Part I. Item 1A of the Company's Annual Report on Form 10-K for the year ended March 31, 2010.

Risks Associated with Our Business

We are required to comply with the terms of two memoranda of understanding and a supervisory letter directive issued by the OTS and lack of compliance could result in monetary penalties and /or additional regulatory actions.

In January 2009, Riverview Community Bank entered into a Memorandum of Understanding, or MOU, with the OTS. Under that agreement, Riverview Community Bank must, among other things, develop a plan for achieving and maintaining a minimum Tier 1 Capital (Leverage) Ratio of 8% and a minimum Total Risk-Based Capital Ratio of 12%, compared to its current minimum required regulatory Tier 1 Capital (Leverage) Ratio of 4% and Total Risk-Based Capital Ratio of 8%. As of June 30, 2010, Riverview Community Bank's Tier 1 Capital (Leverage) Ratio was 9.78% (1.78% over the new required minimum) and its Total Risk-Based Capital ratio was 12.61% (0.61% over the new required minimum). The MOU also requires Riverview Community Bank to:

- remain in compliance with the minimum capital ratios contained in Riverview Community Bank's business plan;
- provide notice to and obtain a non-objection from the OTS prior to declaring a dividend;
- maintain an adequate allowance for loan and lease losses;
- engage an independent consultant to conduct a comprehensive evaluation of Riverview Community Bank's asset quality;
- submit a quarterly update to its written comprehensive plan to reduce classified assets, that is acceptable to the OTS; and
- obtain written approval of the loan committee and the Board prior to the extension of credit to any borrower with a classified loan.

On June 9, 2009 the OTS issued a Supervisory Letter Directive, or SLD, to Riverview Community Bank that restricts its brokered deposits (including Certificate of Deposit Account Registry Service, or CDARS) to 10% of total deposits. At June 30, 2010, Riverview Community Bank had $10.0 million in wholesale-brokered deposits. At June 9, 2009, we did not have any wholesale-brokered deposits. Riverview Community Bank participates in the CDARS product, which allows Riverview Community Bank to accept deposits in excess of the FDIC insurance limit for that depositor and obtain "pass-through" insurance for the total deposit. Riverview Community Bank's reciprocal CDARS balance was $44.1 million, or 6.2% of total deposits, and $31.9 million, or 4.6% of total deposits, at June 30, 2010 and March 31, 2010, respectively. At June 30, 2010, we had total brokered deposits of $34.1 million or 4.8% of total deposits.

In October 2009 Riverview entered into a separate MOU with the OTS. Under this agreement, Riverview must, among other things, support Riverview Community Bank's compliance with its MOU issued in January 2009. The MOU also requires Riverview to:

- provide notice to and obtain written non-objection from the OTS prior to declaring a dividend or redeeming any capital stock or receiving dividends or other payments from Riverview Community Bank;
- provide notice to and obtain written non-objection from the OTS prior to incurring, issuing, renewing or repurchasing any new debt; and
- submit to the OTS within prescribed time periods an operations plan and a consolidated capital plan that respectively addresses Riverview's ability to meet its financial obligations through December 2012 and how Riverview Community Bank will maintain capital ratios mandated by its MOU.

Riverview Community Bank was not permitted by the OTS to make a dividend payment to us in May 2010, resulting in the deferral of interest on our outstanding trust preferred securities. See "We have deferred payments of interest on our outstanding junior subordinated debentures and as a result we are prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock."

The MOUs and SLD will remain in effect until stayed, modified, terminated or suspended by the OTS. If the OTS were to determine that Riverview or Riverview Community Bank were not in compliance with their respective MOUs, it would have available various remedies, including among others, the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to direct an increase in capital, to restrict the growth of Riverview or Riverview Community Bank, to remove officers and/or directors, and to assess civil monetary penalties. Management of Riverview and Riverview Community Bank have been taking action and implementing programs to comply with the requirements of the MOUs and SLD. Although compliance with the MOUs and SLD will be determined by the OTS, management believes that Riverview and Riverview Community Bank have complied in all material respects with the provisions of the MOUs and SLD required to be complied with as of the date of this prospectus, including the capital requirements and restrictions on brokered deposits imposed by the OTS. The OTS may determine, however, in its sole discretion that the issues raised by the MOUs and SLD have not been addressed satisfactorily, or that any current or past actions, violations or deficiencies could be the subject of further regulatory enforcement actions. Such enforcement actions could involve penalties or limitations on our business at Riverview Community Bank or Riverview and negatively affect our ability to implement our business plan, pay dividends on our common stock and the value of our common stock as well as our financial condition and results of operations.

The current economic recession in the market areas we serve may continue to adversely impact our earnings and could increase the credit risk associated with our loan portfolio.

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

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

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

Our real estate construction and land acquisition or development loans are based upon estimates of costs and the value of the completed project.

We make real estate construction loans to individuals and builders, primarily for the construction of residential properties. We originate these loans whether or not the collateral property underlying the loan is under contract for sale. At June 30, 2010, construction loans totaled $68.7 million, or 9.6% of our total loan portfolio, of which $32.3 million were for residential real estate projects. Approximately $4.2 million of our residential construction loans were made to finance the construction of owner-occupied homes and are structured to be converted to permanent loans at the end of the construction phase. Land loans, which are loans made with land as security, totaled $68.3 million, or 9.5%, of our total loan portfolio at June 30, 2010. Land loans include raw land and land acquisition and development loans. These loans carry additional risks from other types of real estate based lending. In general, construction and land lending involves additional risks because of the inherent difficulty in estimating a property's value both before and at completion of the project as well as the estimated cost of the project. Construction costs may exceed original estimates as a result of increased materials, labor or other costs. In addition, because of current uncertainties in the residential real estate market, property values have become more difficult to determine than they have historically been. Construction loans and land acquisition and development loans often involve the disbursement of funds with repayment dependent, in part, on the success of the project and the ability of the borrower to sell or lease the property or refinance the indebtedness, rather than the ability of the borrower or guarantor to repay principal and interest. These loans are also generally more difficult to monitor. In addition, speculative construction loans to a builder are often associated with homes that are not pre-sold, and thus pose a greater potential risk than construction loans to individuals on their personal residences. At June 30, 2010, $96.4 million of our construction and land loans were for speculative purposes. Approximately $19.8 million, or 20.6%, of our speculative construction and land loans were nonperforming at June 30, 2010. A material increase in our nonperforming construction and land loans could have a material adverse effect on our financial condition and results of operations.

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

Our current business strategy is focused on the expansion of commercial real estate lending. This type of lending activity, while potentially more profitable than single-family residential lending, is generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. Collateral evaluation and financial statement analysis in these types of loans requires a more detailed analysis at the time of loan underwriting and on an ongoing basis. In our primary market of southwest Washington and northwest Oregon, the housing market has slowed, with weaker demand for housing, higher inventory levels and longer marketing times. A further downturn in housing, or the real estate market, could increase loan delinquencies, defaults and foreclosures, and significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. Many of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss and adversely affect our results of operations.

At June 30, 2010, we had $386.8 million of commercial and multi-family real estate mortgage loans, representing 53.9% of our total loan portfolio. These loans typically involve higher principal amounts than other types of loans, and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower's project is reduced as a result of leases not being obtained or renewed, the borrower's ability to repay the loan may be impaired. Commercial and multi-family mortgage loans also expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial and multi-family real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment.

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

The level of our commercial real estate loan portfolio may subject us to additional regulatory scrutiny.

The FDIC, the Federal Reserve and the OTS have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under this guidance, a financial institution that, like us, is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors (i) total reported loans for construction, land development, and other land represent 100% or more of total capital, or (ii) total reported loans secured by multifamily and non-farm residential properties, loans for construction, land development and other land, and loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300% or more of total capital. The particular focus of the guidance is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be at greater risk to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance states that management should employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. We have concluded that we have a concentration in commercial real estate lending under the foregoing standards because our $322.3 million balance in commercial real estate loans at June 30, 2010 represents 300% or more of total capital. While we believe we have implemented policies and procedures with respect to our commercial real estate loan portfolio consistent with this guidance, bank regulators could require us to implement additional policies and procedures consistent with their interpretation of the guidance that may result in additional costs to us and an adjustment to our growth strategies.

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

At June 30, 2010, we had $106.0 million or 14.8% of total loans in commercial loans. Commercial lending involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. Our commercial loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The borrower's cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Although commercial loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use, among other things. Accordingly, the repayment of commercial loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower.

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

At June 30, 2010, $87.5 million, or 12.2% of our total loan portfolio, was secured by one-to-four single-family mortgage loans and home equity lines of credit. This type of lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. The decline in residential real estate values as a result of the downturn in the Washington and Oregon housing markets has reduced the value of the real estate collateral securing these types of loans and increased the risk that we would incur losses if borrowers default on their loans. Continued declines in both the volume of real estate sales and the sales prices coupled with the current recession and the associated increases in unemployment may result in higher than expected loan delinquencies or problem assets, a decline in demand for our products and services, or lack of growth or a decrease in deposits. These potential negative events may cause us to incur losses, adversely affect our capital and liquidity, and damage our financial condition and business operations.

High loan-to-value ratios on a portion of our residential mortgage loan portfolio exposes us to greater risk of loss.

Many of our residential mortgage loans are secured by liens on mortgage properties in which the borrowers have little or no equity because either we originated upon purchase a first mortgage with an 80% loan-to-value ratio, have originated a home equity loan with a combined loan-to-value ratio of up to 90% or because of the decline in home values in our market areas. Residential loans with high loan-to-value ratios will be more sensitive to declining property values than those with lower combined loan-to-value ratios and, therefore, may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, such borrowers may be unable to repay their loans in full from the sale. As a result, these loans may experience higher rates of delinquencies, defaults and losses.

Our provision for loan losses has increased substantially and we may be required to make further increases in our provision for loan losses and to charge-off additional loans in the future, which could adversely affect our results of operations.

For the quarter ended June 30, 2010 and 2009 we recorded a provision for loan losses of $1.3 million and $2.4 million, respectively. We also recorded net loan charge-offs of $3.4 million and $1.5 million for the quarter ended June 30, 2010 and 2009, respectively. We experienced increasing loan delinquencies and credit losses. With the exception of residential construction and development loans, nonperforming loans and assets generally reflect unique operating difficulties for individual borrowers rather than weakness in the overall economy of the Pacific Northwest; however, more recently the deterioration in the general economy has become a significant contributing factor to the increased levels of delinquencies and nonperforming loans. Slower sales and excess inventory in the housing market has been the primary cause of the increase in delinquencies and foreclosures for residential construction and land development loans, which represent 60.1% of our nonperforming loan balance at June 30, 2010. At June 30, 2010 our total nonperforming assets had decreased to $47.9 million compared to $57.1 million at June 30, 2009. Furthermore, our portfolio is concentrated in construction and land loans and commercial and commercial real estate loans, all of which have a higher risk of loss than residential mortgage loans.

If current trends in the housing and real estate markets continue, we expect that we will continue to experience higher than normal delinquencies and credit losses. Moreover, until general economic conditions improve, we expect that we will continue to experience significantly higher than normal delinquencies and credit losses. As a result, we could be required to make further increases in our provision for loan losses and to charge off additional loans in the future, which could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

- our general reserve, based on our historical default and loss experience and certain macroeconomic factors based on management's expectations of future events; and
- our specific reserve, based on our evaluation of nonperforming loans and their underlying collateral.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and the loss and delinquency experience, and evaluate economic conditions and make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for additions to our allowance through an increase in the provision for loan losses. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. Our allowance for loan losses was $19.6 million or 2.73% of gross loans held for investment and 59.37% of nonperforming loans at June 30, 2010. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. If charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the provision for loan losses will result in a decrease in net income and may have a material adverse effect on our financial condition, results of operations and our capital.

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

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

In addition, bank regulators periodically review our REO and may require us to recognize further charge-offs. Any increase in our charge-offs, as required by such regulators, may have a material adverse effect on our financial condition and results of operations.

Other-than-temporary impairment charges in our investment securities portfolio could result in additional losses.

During the three months ended June 30, 2010, there were no non-cash other than temporary impairment (“OTTI”) charges for our single trust preferred investment security we hold for investment. At June 30, 2010 the fair value of this security was $1.0 million. We do not intend to sell this security and it is not more likely than not that we will be required to sell the security before anticipated recovery of the remaining amortized cost basis.

We closely monitor this security and our other investment securities for changes in credit risk. The valuation of our investment securities also is influenced by external market and other factors, including implementation of Securities and Exchange Commission and Financial Accounting Standards Board guidance on fair value accounting. Our valuation of our trust preferred security will be influenced by the default rates of specific financial institutions whose securities provide the underlying collateral for this security. The current market environment significantly limits our ability to mitigate our exposure to valuation changes in this security by selling it. Accordingly, if market conditions deteriorate further and we determine our holdings of this or other investment securities are other than temporary, our results of operations could be adversely affected.

Our real estate lending also exposes us to the risk of environmental liabilities.

In the course of our business, we may foreclose and take title to real estate, and we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third persons for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected.

Fluctuating interest rates can adversely affect our profitability.

Our profitability is dependent to a large extent upon net interest income, which is the difference, or spread, between the interest earned on loans, securities and other interest-earning assets and the interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. In a changing interest rate environment, we may not be able to manage this risk effectively. Changes in interest rates also can affect: (1) our ability to originate and/or sell loans; (2) the value of our interest-earning assets, which would negatively impact shareholders' equity, and our ability to realize gains from the sale of such assets; (3) our ability to obtain and retain deposits in competition with other available investment alternatives; and (4) the ability of our borrowers to repay adjustable or variable rate loans. Interest rates are highly sensitive to many factors, including government monetary policies, domestic and international economic and political conditions and other factors beyond our control. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially harmed.

Our loan portfolio possesses increased risk due to our level of adjustable rate loans.

A substantial majority of our real estate secured loans held are adjustable-rate loans. Any rise in prevailing market interest rates may result in increased payments for borrowers who have adjustable rate mortgage loans, increasing the possibility of defaults that may adversely affect our profitability.

Increases in deposit insurance premiums and special FDIC assessments will hurt our earnings.

Beginning in late 2008, the economic environment caused higher levels of bank failures, which dramatically increased FDIC resolution costs and led to a significant reduction in the Deposit Insurance Fund. As a result, the FDIC has significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. The base assessment rate was increased by seven basis points (seven cents for every $100 of deposits) for the first quarter of 2009. Effective April 1, 2009, initial base assessment rates were changed to range from 12 basis points to 45 basis points across all risk categories with possible adjustments to these rates based on certain debt-related components. These increases in the base assessment rate have increased our deposit insurance costs and negatively impacted our earnings. In addition, in May 2009, the FDIC imposed a special assessment on all insured institutions due to recent bank and savings association failures. The emergency assessment amounts to five basis points on each institution's assets minus Tier 1 capital as of June 30, 2009, subject to a maximum equal to 10 basis points times the institution's assessment base. Our FDIC deposit insurance expense for fiscal 2010 was $1.9 million, including the special assessment of $417,000 recorded in June 2009 and paid on September 30, 2009.

Further, the FDIC may impose additional emergency special assessments of up to five basis points per quarter on each institution's assets minus Tier 1 capital if necessary to maintain public confidence in federal deposit insurance or as a result of deterioration in the Deposit Insurance Fund reserve ratio due to institution failures. Additionally, in November 2009, the FDIC announced that financial institutions are required to prepay their estimated quarterly risk-based assessment for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. In December 2009, we prepaid $5.4 million, which will be expensed over this three-year period. This prepayment did not immediately impact our earnings as the payment will be expensed over time, however, any additional emergency special assessment imposed by the FDIC will adversely affect our earnings.

We participate in the FDIC's Transaction Account Guarantee Program, or TAGP, for non-interest-bearing transaction deposit accounts. The TAGP is a component of the FDIC's Temporary Liquidity Guarantee Program, or TLGP. The TAGP was originally set to expire on December 31, 2009, but the FDIC established an extension period for the TAGP to run from January 1, 2010 through June 30, 2010, and subsequently extended it through December 31, 2010 with the possibility of a further extension through December 31, 2011. During the extension period, the fees for participating banks range from 15 to 25 basis points on the amounts in such accounts above the amounts covered by FDIC deposit insurance, depending on the risk category to which the bank is assigned for deposit insurance assessment purposes.

To the extent that assessments under the TAGP are insufficient to cover any loss or expenses arising from the TLGP, the FDIC is authorized to impose an emergency special assessment on all FDIC-insured depository institutions. The FDIC has authority to impose charges for the TLGP upon depository institution holding companies, as well. These charges would cause the premiums and TAGP assessments charged by the FDIC to increase. These actions could significantly increase our non-interest expense.

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

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. We rely on customer deposits and advances from the FHLB of Seattle (“FHLB”), borrowings from the Federal Reserve Bank of San Francisco ("FRB") and other borrowings to fund our operations. Although we have historically been able to replace maturing deposits and advances if desired, we may not be able to replace such funds in the future if, among other things, our financial condition, the financial condition of the

FHLB or FRB, or market conditions change. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable could be impaired by factors that affect us specifically or the financial services industry or economy in general - such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations and the continued deterioration in credit markets. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the Washington or Oregon markets where our loans are concentrated or adverse regulatory action against us. In addition, the OTS has limited our ability to use brokered deposits as a source of liquidity by restricting them to not more than 10% of our total deposits. At June 30, 2010 our brokered deposits (consisting of $34.1 million CDARS deposits and $10.0 million in wholesale-brokered deposits) totaled $44.1 million or 6.2% of total deposits.

Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Although we consider our sources of funds adequate for our liquidity needs, we may seek additional debt in the future to achieve our long-term business objectives. Additional borrowings, if sought, may not be available to us or, if available, may not be available on reasonable terms. If additional financing sources are unavailable, or are not available on reasonable terms, our financial condition, results of operations, growth and future prospects could be materially adversely affected. In addition, Riverview may not incur additional debt without the prior written non-objective of the OTS. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs.

Decreased volumes and lower gains on sales and brokering of mortgage loans sold could adversely impact net income.

We originate and sell mortgage loans as well as broker mortgage loans. Changes in interest rates affect demand for our loan products and the revenue realized on the sale of loans. A decrease in the volume of loans sold/brokered can decrease our revenues and net income.

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

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

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

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our capital resources will satisfy our capital requirements for the foreseeable future, including the heightened capital requirements under Riverview Community Bank's MOU. Nonetheless, we may at some point need to raise additional capital to support continued growth.

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

We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations, including changes that may restrict our ability to foreclose on single-family home loans and offer overdraft protection.

We are subject to extensive examination, supervision and comprehensive regulation by the OTS and the FDIC. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds, and the banking system as a whole, and not holders of our common stock. These regulations affect our lending practices, capital structure, investment practices, dividend policy, and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations, and policies for possible changes. Changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, restrict mergers and acquisitions, investments, access to capital, the location of banking offices, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputational damage, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

New legislation proposed by Congress may give bankruptcy courts the power to reduce the increasing number of home foreclosures by giving bankruptcy judges the authority to restructure mortgages and reduce a borrower's payments. Property owners would be allowed to keep their property while working out their debts. Other similar bills placing additional temporary moratoriums on foreclosure sales or otherwise modifying foreclosure procedures to the benefit of borrowers and the detriment of lenders may be enacted by either Congress or the States of Washington and Oregon in the future. These laws may further restrict our collection efforts on one-to-four single-family loans. Additional legislation proposed or under consideration in Congress would give current debit and credit card holders the chance to opt out of an overdraft protection program and limit overdraft fees which could result in additional operational costs and a reduction in our non-interest income.

Further, our regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws by financial institutions and holding companies in the performance of their supervisory and enforcement duties. In this regard, banking regulators are considering additional regulations governing compensation which may adversely affect our ability to attract and retain employees.

Financial reform legislation has been passed that eliminates the OTS, Riverview Bancorp's and Riverview Community Bank's primary federal regulator, and could require Riverview Bancorp to become a bank holding company regulated by the Federal Reserve Board.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Act") singed into law by President Barrack Obama on July 21, 2010 will result in significant changes to the current bank regulatory scheme. This Act eliminates our current primary federal regulator, the Office of Thrift Supervision, and its regulatory authority over the Bank is assumed by the Office of the Comptroller of the Currency (the primary federal regulator for national banks). The Act grants the Board of Governors of the Federal Reserve System exclusive authority to regulate all bank and savings and loan holding companies. As a result, Riverview Bancorp will be subject to oversight by the Federal Reserve Board, as opposed to the Office of Thrift Supervision, and could become subject to holding company capital requirements that it is not currently subject to. Riverview Bancorp believes that, as of June 30, 2010, it would have been in compliance with the holding company capital requirements if it had been subject to such requirements. The Act creates the Consumer Financial Protection Bureau, dedicated to protecting consumers in the financial products and services market. The creation of this agency will result in new regulatory requirements and is expected to raise the cost of regulatory compliance. Because the final rules implementing the Act have not been adopted, we cannot determine the specific impact of the Act on us at this time.

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

We performed our annual goodwill impairment test during the quarter ended December 31, 2009, but no impairment was identified. Our assessment of the fair value of goodwill is based on an evaluation of current purchase transactions, discounted cash flows from forecasted earnings, our current market capitalization, and a valuation of our assets. Our evaluation of the fair value of goodwill involves a substantial amount of judgment. If an impairment of goodwill was deemed to exist, we would be required to write down our assets resulting in a charge to earnings, which would adversely affect our results of operations, perhaps materially; however, it would have no impact on our liquidity, operations or regulatory capital.

Our litigation related costs might continue to increase.

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

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

At June 30, 2010, we owned $7.4 million in FHLB stock.  As a condition of membership at the FHLB, we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB and is calculated in accordance with the Capital Plan of the FHLB. Our FHLB stock has a par value of $100, is carried at cost, and it is subject to recoverability testing per applicable accounting standards. The FHLB has announced that it had a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency (the "FHFA"), its primary regulator, as of December 31, 2008, and that it would suspend future dividends and the repurchase and redemption of outstanding common stock. As a result, the FHLB has not paid a dividend since the fourth quarter of 2008. The FHLB has communicated that it believes the calculation of risk-based capital under the current rules of the FHFA significantly overstates the market risk of the FHLB's private-label mortgage-backed securities in the current market environment and that it has enough capital to cover the risks reflected in its balance sheet. As a result, we have not recorded an other-than-temporary impairment on our investment in FHLB stock. However, continued deterioration in the FHLB's financial position may result in impairment in the value of those securities. We will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of our investment.

If other financial institutions holding deposits for government related entities in Washington State fail, we may be assessed a pro-rata share of the uninsured portion of the deposits by the State of Washington.

We participate in the Washington Public Deposit Protection Program by accepting deposits from local governments, school districts and other municipalities located in the State of Washington.  Under the recovery provisions of the 1969 Public Deposits Protection Act, when a participating bank fails and has public entity deposits that are not insured by the FDIC, the remaining banks that participate in the program are assessed a pro-rata share of the uninsured deposits.

We could see declines in our uninsured deposits, which would reduce the funds we have available for lending and other funding purposes.

The FDIC in the fourth quarter of 2008 increased the federal insurance of deposit accounts from $100,000 to $250,000 and provided 100% insurance coverage for noninterest-bearing transaction accounts for participating members including Riverview Community Bank. With the increase of bank failures, depositors are reviewing deposit relationships to maximize federal deposit insurance coverage.  We may see outflows of uninsured deposits as customers restructure their banking relationships in setting up multiple accounts in multiple banks to maximize federal deposit insurance coverage. The Act permanently raised the maximum deposit insurance amount to $250,000. In addition, the Act made this increase retroactive to January 1, 2008

Competition with other financial institutions could adversely affect our profitability.

The banking and financial services industry is very competitive. Legal and regulatory developments have made it easier for new and sometimes unregulated competitors to compete with us. Consolidation among financial service providers has resulted in fewer very large national and regional banking and financial institutions holding a large accumulation of assets. These institutions generally have significantly greater resources, a wider geographic presence or greater accessibility. Our competitors sometimes are also able to offer more services, more favorable pricing or greater customer convenience than we do. In addition, our competition has grown from new banks and other financial services providers that target our existing or potential customers. As consolidation continues, we expect additional institutions to try to exploit our market.

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

We rely heavily on the proper functioning of our technology.

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

We rely on third-party service providers for much of our communications, information, operating and financial control systems technology. If any of our third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to locate alternative sources of such services, and we cannot assure that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality, as found in our existing systems, without the need to expend substantial resources, if at all. Any of these circumstances could have an adverse effect on our business.

Changes in accounting standards may affect our performance.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time there are changes in the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we report and record our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in a retrospective adjustment to prior financial statements.

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

Our mortgage banking operations provide a significant portion of our non-interest income. We generate mortgage revenues primarily from gains on the sale of single-family mortgage loans pursuant to programs currently offered by Fannie Mae, Freddie Mac and non-GSE investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Any future changes in these programs, our eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, materially adversely affect our results of operations. Further, in a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage banking revenues and a corresponding decrease in non-interest income. In addition, our results of operations are affected by the amount of non-interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.

We may engage in FDIC-assisted transactions, which could present additional risks to our business.

We may have opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions, including transactions in the states of Washington, Oregon and Idaho. Although these FDIC-assisted transactions typically provide for FDIC assistance to an acquirer to mitigate certain risks, such as sharing exposure to loan losses and providing indemnification against certain liabilities of the failed institution, we are (and would be in future transactions) subject to many of the same risks we would face in acquiring another bank in a negotiated transaction, including risks associated with maintaining customer relationships and failure to realize the anticipated acquisition benefits in the amounts and within the timeframes we expect. In addition, because these acquisitions are structured in a manner that would not allow us the time and access to information normally associated with preparing for and evaluating a negotiated acquisition, we may face additional risks in FDIC-assisted transactions, including additional strain on management resources, management of problem loans, problems related to integration of personnel and operating systems and impact to our capital resources requiring us to raise additional capital. We cannot provide assurance that we would be successful in overcoming these risks or any other problems encountered in connection with FDIC-assisted transactions. Our inability to overcome these risks could have a material adverse effect on our business, financial condition and results of operations.

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

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

Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes.

Our loans to businesses and individuals and our deposit relationships and related transactions are subject to exposure to the risk of loss due to fraud and other financial crimes. Nationally, reported incidents of fraud and other financial crimes have increased. We have also experienced an increase in apparent fraud and other financial crimes; however, we have not recently experienced material losses due to such crimes. While we have policies and procedures designed to prevent such losses, there can be no assurance that such losses will not occur.

Managing reputational risk is important to attracting and maintaining customers, investor and employees.

Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation.

Our assets as of June 30, 2010 include a deferred tax asset and we may not be able to realize the full amount of such asset.

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At June 30, 2010, the net deferred tax asset was approximately $11.2 million. We regularly review our net deferred tax assets for recoverability based on history of earnings, expectations for future earnings and expected timing of reversals of temporary differences. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income, including taxable income in prior carryback years, as well as future taxable income. We believe the recorded net deferred tax asset at June 30, 2010 is fully realizable; however, if we determine that we will be unable to realize all or part of the net deferred tax asset, we would adjust this net deferred tax asset, which would negatively impact our earnings or increase our net loss.

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

Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Furthermore, holders of our common stock are subject to the prior dividend rights of any holders of our preferred stock at any time outstanding or depositary shares representing such preferred stock then outstanding. Although we have historically declared cash dividends on our common stock, we are not required to do so. We suspended our cash dividend during the quarter ended December 31, 2008 and we do not know if we will resume the payment of dividends in the future. In addition, under the terms of the October 2009 MOU the payment of dividends by Riverview to its shareholders is also subject to the prior written non-objection of the OTS. As an entity separate and distinct from Riverview Community Bank, Riverview derives substantially all of its revenue in the form of dividends from Riverview Community Bank. Accordingly, Riverview is and will be dependent upon dividends from Riverview Community Bank to satisfy its cash needs and to pay dividends on its common stock. The inability to receive dividends from Riverview Community Bank could have a material adverse effect on Riverview's business, financial condition and results of operations Riverview Community Bank's ability to pay dividends is subject to its ability to earn net income and, to meet certain regulatory requirements. Riverview Community Bank does not currently meet these regulatory requirements. Riverview Community Bank may not pay dividends to Riverview without prior notice to the OTS, which limits Riverview's ability to pay dividends on its common stock. The lack of a cash dividend could adversely affect the market price of our common stock.

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

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

We may, without notice to or consent from the holders of our common stock, issue additional series of junior subordinated debentures in the future with terms similar to those of our existing junior subordinated debentures or enter into other financing agreements that limit our ability to purchase or to pay dividends or distributions on our capital stock, including our common stock. Under Riverview's MOU the issuance of any new debt is subject to the non-objection of the OTS. Assuming we were to receive such non-objection, as a result of our deferral of interest on the junior subordinated debentures, it is likely that we will not be able to raise funds through the offering of debt securities until we become current on these obligations or these obligations are restructured.

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

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

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

None.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. [Removed and Reserved]

Item 5. Other Information

Not applicable

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Item 6. Exhibits

(a) Exhibits:

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| 3.1 | Articles of Incorporation of the Registrant (1) |
| 3.2 | Bylaws of the Registrant (1) |
| 4 | Form of Certificate of Common Stock of the Registrant (1) |
| 10.1 | Form of Employment Agreement between the Bank and each Patrick Sheaffer, Ronald A. Wysaske, David A. Dahlstrom and John A. Karas(2) |
| 10.2 | Form of Change in Control Agreement between the Bank and Kevin J. Lycklama (2) |
| 10.3 | Employee Severance Compensation Plan (3) |
| 10.4 | Employee Stock Ownership Plan (4) |
| 10.5 | 1998 Stock Option Plan (5) |
| 10.6 | 2003 Stock Option Plan (6) |
| 10.7 | Form of Incentive Stock Option Award Pursuant to 2003 Stock Option Plan (7) |
| 10.8 | Form of Non-qualified Stock Option Award Pursuant to 2003 Stock Option Plan (7) |
| 10.9 | Deferred Compensation Plan (8) |
| 11 | Statement recomputation of per share earnings (See Note 4 of Notes to Consolidated Financial Statements contained herein.) |
| 31.1 | Certifications of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act |
| 31.2 | Certifications of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act |
| 32 | Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act |

(1) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (Registration No. 333-30203), and incorporated herein by reference.
(2) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on September 18, 2007 and incorporated herein by reference.
(3) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter-ended September 30, 1997, and incorporated herein by reference.
(4) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended March 31, 1998, and incorporated herein by reference.
(5) Filed as an exhibit to the Registrant’s Registration Statement on Form S-8 (Registration No. 333-66049), and incorporated herein by reference.
(6) Filed as an exhibit to the Registrant’s Definitive Annual Meeting Proxy Statement (000-22957), filed with the Commission on June 5, 2003, and incorporated herein by reference.
(7) Filed as an exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter-ended December 31, 2005, and incorporated herein by reference.
(8) Filed as an exhibit to the Registrant’s Annual Report on Form 10-K for the year ended March 31, 2009 and incorporated herein by reference.

SIGNATURES

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

RIVERVIEW BANCORP, INC.

| | | | |
|---|---|---|---|
| By: | /S/ Patrick Sheaffer<br>Patrick Sheaffer<br>Chairman of the Board<br>Chief Executive Officer<br>(Principal Executive Officer) | By: | /S/ Kevin J. Lycklama<br>Kevin J. Lycklama<br>Executive Vice President<br>Chief Financial Officer |
| Date: | August 5, 2010 | Date: | August 5, 2010 |

EXHIBIT INDEX

31.1 Certifications of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2 Certifications of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
32 Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act