RIVERVIEW BANCORP INC
Form 10-Q
August 08, 2017
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, 2017

OR

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

For the transition period from _____ to _____

Commission File Number: 000-22957

RIVERVIEW BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $.01 par value per share, 22,527,401 shares outstanding as of August 8, 2017.

Form 10-Q

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
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Forward-Looking Statements

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

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: When used in this Form 10-Q, the words "believes," "expects," "anticipates," "estimates," "forecasts," "intends," "plans," "targets," "potentially," "probably," "projects," "outlook," or similar expressions or future or conditional verbs such as "may," "will," "should," "would," and "could," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future performance. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated, including, but not limited to: the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in the Company's allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets; 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, including from our recent purchase of certain assets and assumption of certain liabilities of MBank and Merchants Bancorp; changes in general economic conditions, either nationally or in the Company's market areas; changes in the levels of general interest rates, and the relative differences between short and long-term interest rates, deposit interest rates, the Company's net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in the Company's market areas; secondary market conditions for loans and the Company's ability to sell loans in the secondary market; results of examinations of our bank subsidiary, Riverview Community Bank, by the Office of the Comptroller of the Currency and of the Company by the Board of Governors of the Federal Reserve System, or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require the Company to increase its allowance for loan losses, write-down assets, reclassify its assets, change Riverview Community Bank's regulatory capital position or affect the Company's ability to borrow funds or maintain or increase deposits, which could adversely affect its liquidity and earnings; legislative or regulatory changes that adversely affect the Company's business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III; the Company's ability to attract and retain deposits; increases in premiums for deposit insurance; the Company's ability to control operating costs and expenses; the use of estimates in determining fair value of certain of the Company's assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risks associated with the loans on the Company's consolidated balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect the Company's workforce and potential associated charges; computer systems on which the Company depends could fail or experience a security breach; the Company's ability to retain key members of its senior management team; costs and effects of litigation, including settlements and judgments; the Company's ability to implement its business strategies; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; the Company's ability to pay dividends on its common stock and interest or principal payments on its junior subordinated debentures; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; other economic, competitive, governmental, regulatory, and technological factors affecting the Company's operations, pricing, products and services; and the other risks described from time to time in our filings with the Securities and Exchange Commission.

The Company cautions readers not to place undue reliance on any forward-looking statements. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company. The Company does not undertake and specifically disclaims any obligation to revise any forward-looking statements included in this report or the reasons why actual results could differ from those contained in such statements, whether as a result of new information or to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These risks could cause our actual results for fiscal 2018 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of, us and could negatively affect the Company's consolidated financial condition and consolidated results of operations as well as its stock price performance.

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

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2017 AND MARCH 31, 2017

(In thousands, except share and per share data) (Unaudited)	June 30, 2017	March 31, 2017
ASSETS		
Cash and cash equivalents (including interest-earning accounts of $14,919 and $46,245)	$34,108	$64,613
Certificates of deposit held for investment	11,042	11,042
Loans held for sale	768	478
Investment securities:		
Available for sale, at estimated fair value	205,012	200,214
Held to maturity, at amortized cost (estimated fair value of $55 and $66)	54	64
Loans receivable (net of allowance for loan losses of $10,597 and $10,528)	786,913	768,904
Real estate owned ("REO")	298	298
Prepaid expenses and other assets	3,901	3,815
Accrued interest receivable	3,086	2,941
Federal Home Loan Bank stock, at cost	1,181	1,181
Premises and equipment, net	16,041	16,232
Deferred income taxes, net	6,051	7,610
Mortgage servicing rights, net	408	398
Goodwill	27,076	27,076
Core deposit intangible ("CDI"), net	1,277	1,335
Bank owned life insurance ("BOLI")	27,945	27,738
TOTAL ASSETS	$1,125,161	$1,133,939
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits	$973,483	$980,058
Accrued expenses and other liabilities	8,302	13,080
Advanced payments by borrowers for taxes and insurance	596	693
Junior subordinated debentures	26,414	26,390
Capital lease obligation	2,449	2,454
Total liabilities	1,011,244	1,022,675
COMMITMENTS AND CONTINGENCIES (See Note 13)		
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, 2017 – 22,527,401 issued and outstanding	225	225
March 31, 2017 – 22,510,890 issued and outstanding		
Additional paid-in capital	64,556	64,468
Retained earnings	50,482	48,335
Unearned shares issued to employee stock ownership plan ("ESOP")	(52)	(77)
Accumulated other comprehensive loss	(1,294)	(1,687)
Total shareholders' equity	113,917	111,264

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,125,161	$1,133,939

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016

(In thousands, except share and per share data) (Unaudited)	2017	2018
INTEREST AND DIVIDEND INCOME:		
Interest and fees on loans receivable	$9,789	$7,440
Interest on investment securities – taxable	1,133	720
Interest on investment securities – nontaxable	14	-
Other interest and dividends	87	102
Total interest and dividend income	11,023	8,262
INTEREST EXPENSE:		
Interest on deposits	322	281
Interest on borrowings	268	158
Total interest expense	590	439
Net interest income	10,433	7,823
Provision for loan losses	-	-
Net interest income after provision for loan losses	10,433	7,823
NON-INTEREST INCOME:		
Fees and service charges	1,407	1,323
Asset management fees	853	822
Net gains on sales of loans held for sale	225	139
BOLI	207	191
Other, net	46	39
Total non-interest income, net	2,738	2,514
NON-INTEREST EXPENSE:		
Salaries and employee benefits	5,422	4,640
Occupancy and depreciation	1,346	1,137
Data processing	616	495
Amortization of CDI	58	-
Advertising and marketing	234	193
FDIC insurance premium	145	122
State and local taxes	154	139
Telecommunications	104	73
Professional fees	415	258
REO	2	15
Other	678	743
Total non-interest expense	9,174	7,815
INCOME BEFORE INCOME TAXES	3,997	2,522
PROVISION FOR INCOME TAXES	1,343	825
NET INCOME	$2,654	$1,697
Earnings per common share:		
Basic	$0.12	$0.08
Diluted	0.12	0.08
Weighted average number of common shares outstanding:		

Basic	22,504,852	22,467,861
Diluted	22,589,440	22,514,235

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016

(In thousands) (Unaudited)	2017	2016
Net income	$2,654	$1,697
Other comprehensive income:		
Net unrealized holding gain from available for sale investment securities arising during the period, net of tax of ($217) and ($245), respectively	393	441
Total comprehensive income, net	$3,047	$2,138

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016

(In thousands, except share data)	Common Stock		Additional Paid-In	Retained	Unearned Shares Issued to	Accumulated Other Comprehensive	
(Unaudited)	Shares	Amount	Capital	Earnings	ESOP	Income (Loss)	Total
Balance April 1, 2016	22,507,890	$ 225	$ 64,418	$ 42,728	$ (181)	$ 1,083	$ 108,273
Net income	-	-	-	1,697	-	-	1,697
Cash dividend ($0.02 per share)	-	-	-	(449)	-	-	(449)
Earned ESOP shares	-	-	3	-	26	-	29
Other comprehensive income, net	-	-	-	-	-	441	441
Balance June 30, 2016	22,507,890	$ 225	$ 64,421	$ 43,976	$ (155)	$ 1,524	$ 109,991
Balance April 1, 2017	22,510,890	$ 225	$ 64,468	$ 48,335	$ (77)	$ (1,687)	$ 111,264
Net income	-	-	-	2,654	-	-	2,654
Cash dividend ($0.0225 per share)	-	-	-	(507)	-	-	(507)
Exercise of stock options	16,511	-	70	-	-	-	70
Earned ESOP shares	-	-	18	-	25	-	43
Other comprehensive income, net	-	-	-	-	-	393	393
Balance June 30, 2017	22,527,401	$ 225	$ 64,556	$ 50,482	$ (52)	$ (1,294)	$ 113,917

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016

(In thousands) (Unaudited)	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$2,654	$1,697
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	883	911
Provision for deferred income taxes	1,342	803
Expense related to ESOP	43	29
Increase in deferred loan origination fees, net of amortization	2,955	163
Origination of loans held for sale	(7,368)	(4,118)
Proceeds from sales of loans held for sale	7,239	4,253
Net gains on loans held for sale, sales and transfer of REO, sales of investment securities and sales of premises and equipment	(225)	(134)
Income from BOLI	(207)	(191)
Changes in certain other assets and liabilities:		
Prepaid expenses and other assets	(137)	69
Accrued interest receivable	(145)	(68)
Accrued expenses and other liabilities	(4,794)	(119)
Net cash provided by operating activities	2,240	3,295
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan originations, net	(6,315)	(5,265)
Purchases of loans receivable	(14,789)	-
Principal repayments on investment securities available for sale	6,498	6,275
Purchases of investment securities available for sale	(11,030)	(21,464)
Proceeds from calls, maturities, and sales of investment securities available for sale	-	2,500
Principal repayments on investment securities held to maturity	10	3
Purchases of premises and equipment and capitalized software	(107)	(96)
Redemption of certificates of deposit held for investment, net	-	498
Proceeds from sales of REO and premises and equipment	-	21
Net cash used in investing activities	(25,733)	(17,528)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	(6,530)	9,752
Dividends paid	(450)	(449)
Proceeds from borrowings	17,925	-
Repayment of borrowings	(17,925)	-
Principal payments on capital lease obligation	(5)	(5)
Net decrease in advance payments by borrowers	(97)	(88)
Proceeds from exercise of stock options	70	-
Net cash provided by (used in) financing activities	(7,012)	9,210
NET DECREASE IN CASH AND CASH EQUIVALENTS	(30,505)	(5,023)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	64,613	55,400

CASH AND CASH EQUIVALENTS, END OF PERIOD	$34,108	$50,377
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Cash paid during the period for:		
Interest	$553	$395
Income taxes	1	20
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Dividends declared and accrued in other liabilities	$507	$450
Unrealized holding gain from investment securities available for sale	610	686
Income tax effect related to unrealized holding gain from investment securities available for sale	(217)	(245)

See accompanying notes to consolidated financial statements.

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

1. BASIS OF PRESENTATION

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

The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Riverview Bancorp, Inc. Annual Report on Form 10-K for the year ended March 31, 2017 ("2017 Form 10-K"). The unaudited consolidated results of operations for the three months ended June 30, 2017 are not necessarily indicative of the results which may be expected for the entire fiscal year ending March 31, 2018.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

2. PRINCIPLES OF CONSOLIDATION

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

3. BUSINESS COMBINATIONS

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

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

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

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

	At February 17, 2017		
	Book Value	Fair Value Adjustment	Estimated Fair Value
Cash consideration transferred			$12,080
Recognized amounts of identifiable assets acquired and liabilities assumed			
Identifiable assets acquired			
Cash and cash equivalents	$27,196	$ -	$27,196
Loans receivable	115,283	(3,258)	112,025
CDI	-	1,363	1,363
Premises and equipment	1,769	399	2,168
BOLI	2,113	-	2,113
Accrued interest receivable and other assets	431	90	521
Total identifiable assets acquired	146,792	(1,406)	145,386
Liabilities assumed			
Deposits	130,572	235	130,807
Junior subordinated debentures	5,155	(1,468)	3,687
Accrued expenses and other liabilities	293	23	316
Total liabilities assumed	136,020	(1,210)	134,810
Total identifiable net assets	$10,772	$ (196)	10,576
Goodwill recognized			$1,504

The acquired loan portfolio was valued using Level 3 inputs (see Note 11) and included the use of present value techniques, including cash flow estimates and incorporated assumptions that the Company believes marketplace participants would use in estimating fair values. Credit discounts were included in the determination of the fair value of the loans acquired; therefore, an allowance for loan losses was not recorded at the acquisition date. Acquired loans are evaluated upon acquisition and classified as either purchased credit-impaired ("PCI") or purchased non-credit-impaired. PCI loans reflect credit deterioration since origination such that it is probable at acquisition that the Company will be unable to collect all contractually required payments. The Company determined there were no PCI loans acquired in connection with the MBank transaction.

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

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

4. STOCK PLANS AND STOCK-BASED COMPENSATION

In July 1998, shareholders of the Company approved the adoption of the 1998 Stock Option Plan ("1998 Plan"). The 1998 Plan was effective October 1998 and expired in October 2008. In addition, in July 2003, shareholders of the Company approved the adoption of the 2003 Stock Option Plan ("2003 Plan"). The 2003 Plan was effective in July 2003 and expired in July 2013. Accordingly, no further option awards may be granted under the 1998 Plan or the 2003 Plan; however, any awards granted prior to their expirations remain outstanding subject to their terms. Each option granted under the 1998 Plan or the 2003 Plan has an exercise price equal to the fair market value of the Company's common stock on the date of the grant, a maximum term of ten years and a vesting period from zero to five years.

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

	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance, beginning of period	220,654	$ 4.74	223,654	$ 4.73
Options exercised	(16,511)	4.19	-	-
Expired	(5,000)	14.52	-	-
Balance, end of period	199,143	$ 4.54	223,654	$ 4.73

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

	Three Months Ended June 30,	
	2017	2016
Stock options fully vested and expected to vest:		
Number	199,143	223,654
Weighted average exercise price	$4.54	$4.73
Aggregate intrinsic value [1]	$518,000	$235,000
Weighted average contractual term of options (years)	3.25	4.09
Stock options fully vested and currently exercisable:		
Number	199,143	223,654
Weighted average exercise price	$4.54	$4.73
Aggregate intrinsic value [1]	$518,000	$235,000
Weighted average contractual term of options (years)	3.25	4.09

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

There was no stock-based compensation expense related to stock options for the three months ended June 30, 2017 and 2016. As of June 30, 2017, all outstanding stock options were fully vested, and there was no remaining unrecognized compensation expense. The total intrinsic value of stock options exercised was $47,000 for the three months ended June 30, 2017. There were no stock options exercised during the three months ended June 30, 2016.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes stock option valuation model. There were no stock options granted during the three months ended June 30, 2017 and 2016.

On July 26, 2017, the shareholders of the Company approved the Riverview Bancorp, Inc. 2017 Equity Incentive Plan ("2017 Plan"). The 2017 Plan provides for the grant of incentive stock options, non-qualified stock options, restricted stock and restricted stock units. The Company has reserved 1,800,000 shares of its common stock for issuance under the 2017 Plan.

5. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income or loss applicable to common stock by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Diluted EPS is computed by dividing net income or loss applicable to common stock by the weighted average number of common shares and common stock equivalents for items that are dilutive, net of shares assumed to be repurchased using the treasury stock method at the average share price for the Company's common stock during the period. Common stock equivalents arise from the assumed exercise of outstanding stock options. Shares owned by the Company's ESOP that have not been allocated are not considered to be outstanding for the purpose of computing basic and diluted EPS. As of June 30, 2017 and 2016, there were 24,633 and 49,266 shares, respectively, which had not been allocated under the Company's ESOP. For the three months ended June 30, 2017 and 2016, stock options for 19,000 and 59,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive.

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

	Three Months Ended June 30,	
	2017	2016
Basic EPS computation:		
Numerator-net income	$2,654,000	$1,697,000
Denominator-weighted average common shares outstanding	22,504,852	22,467,861
Basic EPS	$0.12	$0.08
Diluted EPS computation:		
Numerator-net income	$2,654,000	$1,697,000
Denominator-weighted average common shares outstanding	22,504,852	22,467,861
Effect of dilutive stock options	84,588	46,374
Weighted average common shares and common stock equivalents	22,589,440	22,514,235
Diluted EPS	$0.12	$0.08

6. INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2017				
Available for sale:				
Municipal securities	$6,398	$ 13	$ (48)	$6,363
Agency securities	22,400	18	(179)	22,239
Real estate mortgage investment conduits (1)	41,683	64	(284)	41,463
Residential mortgage-backed securities (1)	93,576	115	(994)	92,697
Other mortgage-backed securities (2)	42,961	28	(739)	42,250
Total available for sale	$207,018	$ 238	$ (2,244)	$205,012
Held to maturity:				
Residential mortgage-backed securities (3)	$54	$ 1	$ -	$55
March 31, 2017				
Available for sale:				
Municipal securities	$2,936	$ -	$ (117)	$2,819
Agency securities	16,993	18	(203)	16,808
Real estate mortgage investment conduits (1)	43,510	49	(399)	43,160
Residential mortgage-backed securities (1)	97,742	111	(1,242)	96,611
Other mortgage-backed securities (2)	41,649	15	(848)	40,816
Total available for sale	$202,830	$ 193	$ (2,809)	$200,214
Held to maturity:				
Residential mortgage-backed securities (3)	$64	$ 2	$ -	$66

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

The contractual maturities of investment securities as of June 30, 2017 are as follows (in thousands):

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$5,000	$4,985	$ -	$ -
Due after one year through five years	11,488	11,489	-	-
Due after five years through ten years	41,199	40,744	48	49
Due after ten years	149,331	147,794	6	6
Total	$207,018	$205,012	$54	$ 55

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

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

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
June 30, 2017						
Available for sale:						
Municipal securities	$5,170	$ (48)	$-	$ -	$5,170	$ (48)
Agency securities	21,216	(179)	-	-	21,216	(179)
Real estate mortgage investment conduits [1]	29,606	(284)	-	-	29,606	(284)
Residential mortgage-backed securities [1]	72,615	(988)	556	(6)	73,171	(994)
Other mortgage-backed securities [2]	34,288	(716)	2,805	(23)	37,093	(739)
Total available for sale	$162,895	$ (2,215)	$3,361	$ (29)	$166,256	$ (2,244)

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

March 31, 2017						
Available for sale:						
Municipal securities	$2,819	$(117)	$-	$-	$2,819	$(117)
Agency securities	15,785	(203)	-	-	15,785	(203)
Real estate mortgage investment conduits [1]	32,221	(399)	-	-	32,221	(399)
Residential mortgage-backed securities [2]	74,388	(1,232)	602	(10)	74,990	(1,242)
Other mortgage-backed securities [3]	36,754	(803)	2,840	(45)	39,594	(848)
Total available for sale	$161,967	$(2,754)	$3,442	$(55)	$165,409	$(2,809)

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

The unrealized losses on the Company's investment securities at June 30, 2017 were primarily attributable to increases in market interest rates subsequent to their purchase by the Company. The Company expects the fair value of these securities to recover as the securities approach their maturity dates or sooner if market yields for such securities decline. The Company does not believe that these securities are other than temporarily impaired because of their credit quality or related to any issuer or industry specific event. Based on management's evaluation and intent, the unrealized losses related to the investment securities in the above tables are considered temporary.

The Company had no sales and realized no gains or losses on sales of investment securities for the three months ended June 30, 2017 and 2016. Investment securities available for sale with an amortized cost of $10.8 million and $11.1 million and a fair value of $10.7 million and $11.1 million at June 30, 2017 and March 31, 2017, respectively, were pledged as collateral for government public funds held by the Bank. Investment securities held to maturity with an amortized cost of $11,000 and $20,000 and a fair value of $11,000 and $20,000 at June 30, 2017 and March 31, 2017, respectively, were pledged as collateral for government public funds held by the Bank.

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7. LOANS RECEIVABLE

Loans receivable as of June 30, 2017 and March 31, 2017 are reported net of deferred loan fees totaling $3.3 million and $3.2 million, respectively. Loans receivable are also reported net of discounts totaling $1.5 million and $2.0 million at June 30, 2017 and March 31, 2017, respectively. Loans receivable, excluding loans held for sale, consisted of the following at the dates indicated (in thousands):

	June 30, 2017	March 31, 2017
Commercial and construction		
Commercial business	$125,732	$107,371
Commercial real estate	451,831	447,071
Land	15,340	15,875
Multi-family	46,189	43,715
Real estate construction	43,186	46,157
Total commercial and construction	682,278	660,189
Consumer		
Real estate one-to-four family	91,898	92,865
Other installment [1]	23,334	26,378
Total consumer	115,232	119,243
Total loans	797,510	779,432
Less: Allowance for loan losses	10,597	10,528
Loans receivable, net	$786,913	$768,904

[1] Consists primarily of purchased automobile loans totaling $20.5 million and $23.6 million at June 30, 2017 and March 31, 2017, respectively.

The Company considers its loan portfolio to have very little exposure to sub-prime mortgage loans since the Company has not historically engaged in this type of lending. At June 30, 2017, loans carried at $447.0 million were pledged as collateral to the Federal Home Loan Bank of Des Moines ("FHLB") and Federal Reserve Bank of San Francisco ("FRB") pursuant to borrowing agreements.

Most of the Bank's business activity is with customers located in the states of Washington and Oregon. Loans and extensions of credit outstanding at one time to one borrower are generally limited by federal regulation to 15% of the Bank's shareholders' equity, excluding accumulated other comprehensive income (loss). As of June 30, 2017 and March 31, 2017, the Bank had no loans to any one borrower in excess of the regulatory limit.

8. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level sufficient to provide for estimated loan losses based on evaluating known and inherent risks in the loan portfolio. The allowance is provided based upon the Company's ongoing quarterly assessment of the pertinent factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, delinquency levels, actual loan loss experience, current economic conditions and a detailed analysis of individual loans for which full collectability may not be assured. The detailed analysis includes techniques to estimate the fair value of loan collateral and the existence of potential alternative sources of repayment. The allowance consists of specific, general and unallocated components.

The specific component relates to loans that are considered impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows or collateral value (less estimated selling costs, if applicable) of the impaired loan is lower than the carrying value of that loan.

The general component covers non-impaired loans based on the Company's risk rating system and historical loss experience adjusted for qualitative factors. The Company calculates its historical loss rates using the average of the last four quarterly 24-month periods. The Company calculates and applies its historical loss rates by individual loan types in its portfolio. These historical loss rates are adjusted for qualitative and environmental factors.

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

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

Management's evaluation of the allowance for loan losses is based on ongoing, quarterly assessments of the known and inherent risks in the loan portfolio. Loss factors are based on the Company's historical loss experience with additional consideration and adjustments made for changes in economic conditions, changes in the amount and composition of the loan portfolio, delinquency rates, changes in collateral values, seasoning of the loan portfolio, duration of the current business cycle, a detailed analysis of impaired loans and other factors as deemed appropriate. These factors are evaluated on a quarterly basis. Loss rates used by the Company are affected as changes in these factors increase or decrease from quarter to quarter. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

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

Three months ended June 30, 2017	Commercial Business	Commercial Real Estate	Land	Multi-Family	Real Estate Construction	Consumer	Unallocated	Total
Beginning balance	$ 1,418	$ 5,084	$228	$ 297	$ 714	$ 2,099	$ 688	$10,528
Provision for (recapture of) loan losses	(30)	92	(146)	205	(46)	(96)	21	-
Charge-offs	-	-	-	-	-	(82)	-	(82)
Recoveries	3	-	137	-	-	11	-	151
Ending balance	$ 1,391	$ 5,176	$219	$ 502	$ 668	$ 1,932	$ 709	$10,597

Three months ended June 30, 2016								
Beginning balance	$1,048	$4,273	$325	$712	$416	$2,403	$708	$9,885
Provision for (recapture of) loan losses	(150)	198	(95)	(41)	149	(63)	2	-
Charge-offs	-	-	-	-	-	(44)	-	(44)
Recoveries	4	2	82	-	-	31	-	119
Ending balance	$902	$4,473	$312	$671	$565	$2,327	$710	$9,960

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

	Allowance for Loan Losses			Recorded Investment in Loans		
June 30, 2017	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial business	$-	$ 1,391	$1,391	$1,114	$ 124,618	$125,732
Commercial real estate	88	5,088	5,176	3,743	448,088	451,831

Land	-	219	219	791	14,549	15,340
Multi-family	-	502	502	1,681	44,508	46,189
Real estate construction	-	668	668	-	43,186	43,186
Consumer	83	1,849	1,932	1,464	113,768	115,232
Unallocated	-	709	709	-	-	-
Total	$171	$ 10,426	$10,597	$8,793	$ 788,717	$797,510

March 31, 2017

Commercial business	$-	$1,418	$1,418	$294	$107,077	$107,371
Commercial real estate	-	5,084	5,084	7,604	439,467	447,071
Land	-	228				