RIVERVIEW BANCORP INC
Form 10-Q
November 10, 2008

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 September 30, 2008

OR

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

For the transition period from _____ to _____

Commission File Number: 0-22957

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

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

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

Indicate by check mark whether the registrant 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. Check one:

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, 10,923,773 shares outstanding as of November 1, 2008.

Form 10-Q

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
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Part I. Financial Information
Item 1. Financial Statements (Unaudited)

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2008 AND MARCH 31, 2008

(In thousands, except share and per share data) (Unaudited)		September 30, 2008		March 31, 2008
ASSETS				
Cash (including interest-earning accounts of $11,786 and $14,238)	$	26,214	$	36,439
Loans held for sale		773		-
Investment securities held to maturity, at amortized cost (fair value of $536)		536		-
Investment securities available for sale, at fair value (amortized cost of $9,371 and $7,825)		9,473		7,487
Mortgage-backed securities held to maturity, at amortized cost (fair value of $701 and $892)		698		885
Mortgage-backed securities available for sale, at fair value (amortized cost of $4,619 and $5,331)		4,567		5,338
Loans receivable (net of allowance for loan losses of $16,124 and $10,687)		770,391		756,538
Real estate and other personal property owned		699		494
Prepaid expenses and other assets		6,102		2,679
Accrued interest receivable		3,280		3,436
Federal Home Loan Bank stock, at cost		7,350		7,350
Premises and equipment, net		20,281		21,026
Deferred income taxes, net		4,442		4,571
Mortgage servicing rights, net		271		302
Goodwill		25,572		25,572
Core deposit intangible, net		488		556
Bank owned life insurance		14,470		14,176
TOTAL ASSETS	$	895,607	$	886,849
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Deposit accounts	$	637,490	$	667,000
Accrued expenses and other liabilities		7,675		8,654
Advanced payments by borrowers for taxes and insurance		375		393
Federal Home Loan Bank advances		136,660		92,850
Junior subordinated debentures		22,681		22,681
Capital lease obligations		2,668		2,686
Total liabilities		807,549		794,264
COMMITMENTS AND CONTINGENCIES (See Note 14)				

SHAREHOLDERS' EQUITY:		
Serial preferred stock, $.01 par value; 250,000 authorized,		
issued and outstanding: none	-	-
Common stock, $.01 par value; 50,000,000 authorized,		
issued and outstanding:		
September 30, 2008 – 10,923,773 issued and outstanding	109	109
March 31, 2008 – 10,913,773 issued and outstanding		
Additional paid-in capital	46,846	46,799
Retained earnings	42,024	46,871
Unearned shares issued to employee stock ownership trust	(954)	(976)
Accumulated other comprehensive income (loss)	33	(218)
Total shareholders' equity	88,058	92,585
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 895,607	$ 886,849

See notes to consolidated financial statements.

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RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (In thousands, except share and per share data) (Unaudited)	Three months Ended September 30,		Six months Ended September 30,	
	2008	2007	2008	2007
INTEREST INCOME:				
Interest and fees on loans receivable	$ 13,425	$ 14,631	$ 26,749	$ 29,511
Interest on investment securities – taxable	121	140	177	312
Interest on investment securities – non-taxable	37	38	69	76
Interest on mortgage-backed securities	55	85	116	176
Other interest and dividends	91	420	184	663
Total interest and dividend income	13,729	15,314	27,295	30,738
INTEREST EXPENSE:				
Interest on deposits	3,800	6,033	7,906	12,223
Interest on borrowings	1,287	587	2,380	993
Total interest expense	5,087	6,620	10,286	13,216
Net interest income	8,642	8,694	17,009	17,522
Less provision for loan losses	7,200	400	9,950	450
Net interest income after provision for loan losses	1,442	8,294	7,059	17,072
NON-INTEREST INCOME:				
Fees and service charges	1,219	1,382	2,429	2,809
Asset management fees	547	513	1,171	1,061
Net gain on sale of loans held for sale	81	92	133	183
Impairment of investment security	(3,414)	-	(3,414)	-
Loan servicing income	33	27	61	66
Bank owned life insurance	148	140	294	279
Other	73	62	195	120
Total non-interest income (loss)	(1,313)	2,216	869	4,518
NON-INTEREST EXPENSE:				
Salaries and employee benefits	3,740	3,908	7,624	7,876
Occupancy and depreciation	1,251	1,244	2,484	2,546
Data processing	208	208	407	376
Amortization of core deposit intangible	33	38	68	80
Advertising and marketing expense	255	370	436	652
FDIC insurance premium	157	19	271	38
State and local taxes	169	178	344	349
Telecommunications	114	92	238	196
Professional fees	248	172	450	395
Other	533	602	1,053	1,104
Total non-interest expense	6,708	6,831	13,375	13,612
INCOME (LOSS) BEFORE INCOME TAXES	(6,579)	3,679	(5,447)	7,978
PROVISION (BENEFIT) FOR INCOME TAXES	(2,381)	1,249	(2,042)	2,709

NET INCOME (LOSS)	$	(4,198)	$	2,430	$	(3,405)	$	5,269
Earnings (loss) per common share:								
Basic	$	(0.39)	$	0.22	$	(0.32)	$	0.47
Diluted		(0.39)		0.22		(0.32)		0.47
Weighted average number of shares outstanding:								
Basic		10,692,838		10,904,464		10,685,459		11,146,813
Diluted		10,692,838		11,026,598		10,685,459		11,275,562

See notes to consolidated financial statements.

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RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED MARCH 31, 2008
AND THE SIX MONTHS ENDED SEPTEMBER 30, 2008

(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 Income (Loss)	Total
Balance April 1, 2007	11,707,980	$ 117	$ 58,438	$ 42,848	$ (1,108)	$ (86)	$ 100,209
Cash dividends ($0.42 per share)	-	-	-	(4,556)	-	-	(4,556)
Exercise of stock options	95,620	1	707	-	-	-	708
Stock repurchased and retired	(889,827)	(9)	(12,634)	-	-	-	(12,643)
FIN 48 transition adjustment	-	-	-	(65)	-	-	(65)
Earned ESOP shares	-	-	282	-	132	-	414
Tax benefit, stock options	-	-	6	-	-	-	6
	10,913,773	109	46,799	38,227	(976)	(86)	84,073
Comprehensive income:							
Net income	-	-	-	8,644	-	-	8,644
Other comprehensive income:							
Unrealized holding loss on securities of $132 (net of $69 tax effect)	-	-	-	-	-	(132)	(132)
Total comprehensive income	-	-	-	-	-	-	8,512
Balance March 31, 2008	10,913,773	109	46,799	46,871	(976)	(218)	92,585
	-	-	-	(1,442)	-	-	(1,442)

Cash dividends ($0.135 per share)							
Exercise of stock options	10,000	-	70	-	-	-	70
Earned ESOP shares	-	-	(23)	-	22	-	(1)
	10,923,773	109	46,846	45,429	(954)	(218)	91,212
Comprehensive income:							
Net loss	-	-	-	(3,405)	-	-	(3,405)
Other comprehensive income:							
Unrealized holding loss on securities of $2,002 (net of $1,031 tax effect) less reclassification adjustment for net losses included in net income of $2,253 (net of $1,161 tax effect)	-	-	-	-	-	251	251
Total comprehensive income	-	-	-	-	-		(3,154)
Balance September 30, 2008	10,923,773	109	46,846	42,024	(954)	33	88,058

See notes to consolidated financial statements.

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RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(In thousands) (Unaudited)	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (3,405)	$ 5,269
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,086	1,102
Mortgage servicing rights valuation adjustment	(4)	(14)
Provision for loan losses	9,950	450
Noncash expense (income) related to ESOP	(1)	176
Increase (decrease) in deferred loan origination fees, net of amortization	296	(34)
Origination of loans held for sale	(6,674)	(8,524)
Proceeds from sales of loans held for sale	5,908	7,949
Excess tax benefit from stock based compensation	(11)	(7)
Net loss (gain) on loans held for sale, sale of real estate owned, mortgage-backed securities, investment securities and premises and equipment	3,294	(183)
Income from bank owned life insurance	(294)	(279)
Changes in assets and liabilities:		
Prepaid expenses and other assets	(3,410)	(580)
Accrued interest receivable	156	(28)
Accrued expenses and other liabilities	(448)	(1,056)
Net cash provided by operating activities	6,443	4,241
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan originations, net	(24,395)	(4,853)
Proceeds from call, maturity, or sale of investment securities available for sale	-	10,490
Principal repayments on investment securities available for sale	37	37
Purchase of investment securities held to maturity	(536)	-
Purchase of investment securities available for sale	(5,000)	-
Principal repayments on mortgage-backed securities available for sale	713	735
Principal repayments on mortgage-backed securities held to maturity	187	205
Purchase of premises and equipment and capitalized software	(272)	(761)
Proceeds from sale of real estate owned and premises and equipment	174	-
Net cash provided (used) in investing activities	(29,092)	5,853
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposit accounts	(29,510)	(5,620)
Dividends paid	(1,921)	(2,386)
Repurchase of common stock	-	(11,238)
Proceeds from advances from FHLB	359,610	77,200
Repayment of advances from FHLB	(315,800)	(78,650)
Proceeds from issuance of subordinated debentures	-	15,464
Principal payments under capital lease obligation	(18)	(17)
Net decrease in advance payments by borrowers	(18)	(21)
Excess tax benefit from stock based compensation	11	7
Proceeds from exercise of stock options	70	621

Net cash provided (used) by financing activities	12,424	(4,640)
NET INCREASE (DECREASE) IN CASH	(10,225)	5,454
CASH, BEGINNING OF PERIOD	36,439	31,423
CASH, END OF PERIOD	$ 26,214	$ 36,877
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 10,386	$ 13,139
Income taxes	1,517	2,912
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of loans to real estate owned, net	$ 385	$ 74
Dividends declared and accrued in other liabilities	480	1,181
Fair value adjustment to securities available for sale	381	56
Income tax effect related to fair value adjustment	(129)	(19)
Premises and equipment purchases included in accounts payable	17	225

See notes to consolidated financial statements.

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

1. BASIS OF PRESENTATION

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

The unaudited consolidated financial statements should be read in conjunction with the audited financial statements included in the Riverview Bancorp, Inc. Annual Report on Form 10-K for the year ended March 31, 2008 ("2008 Form 10-K"). The results of operations for the six months ended September 30, 2008 are not necessarily indicative of the results which may be expected for the fiscal year ending March 31, 2009. 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. ("RAM Corp.") 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 expires on October 1, 2008. Under the 1998 Plan, the Company may grant both incentive and non-qualified stock options to purchase up to 714,150 shares of its common stock to officers, directors and employees. Each option granted under the 1998 Plan has an exercise price equal to the fair market value of the Company's common stock on the date of the grant, a maximum term of ten years and a vesting period from zero to five years. At September 30, 2008, there were options for 8,062 shares of the Company's common stock available for future grant under the 1998 Plan.

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 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 September 30, 2008, there were options for 190,154 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.

	Six months Ended September 30, 2008	Year Ended March 31, 2008

	Number of Shares		Weighted Average Exercise Price	Number of Shares		Weighted Average Exercise Price
Balance, beginning of period	424,972	$	11.02	526,192	$	10.41
Grants	38,500		6.30	20,000		13.42
Options exercised	(10,000)		4.70	(95,620)		7.68
Forfeited	(40,000)		11.46	(25,600)		12.69
Balance, end of period	413,472	$	10.69	424,972	$	11.02

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

	Six months Ended September 30, 2008	Year Ended March 31, 2008
Intrinsic value of options exercised in the period	$ 31,400	$ 613,283
Stock options fully vested and expected to vest:		
Number	409,147	422,572
Weighted average exercise price	$ 10.71	$ 11.02
Aggregate intrinsic value	$ (1,942,283)	$ (437,882)
Weighted average contractual term of options (years)	7.15	6.82
Stock options vested and currently exercisable:		
Number	359,672	397,372
Weighted average exercise price	$ 11.07	$ 10.94
Aggregate intrinsic value	$ (1,837,923)	$ (382,675)
Weighted average contractual term of options (years)	5.84	6.31

Stock-based compensation expense related to stock options for the six months ended September 30, 2008 and 2007 was approximately $12,000 and $20,000, respectively. As of September 30, 2008, there was approximately $64,000 of unrecognized compensation expense related to unvested stock options, which will be recognized over the remaining vesting periods of the underlying stock options.

The Company recognizes compensation expense for stock options in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised), "Share-Based Payment," ("SFAS 123R"). The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes based stock option valuation model. The fair value of all awards is amortized on a straight-line basis over the requisite service periods, which are generally the vesting periods. The Black-Scholes model uses the assumptions listed in the table below. The expected life of options granted represents the period of time that they are expected to be outstanding. The expected life is determined based on historical experience with similar options, giving consideration to the contractual terms and vesting schedules. Expected volatility was estimated at the date of grant based on the historical volatility of the Company's common stock. Expected dividends are based on dividend trends and the market value of the Company's common stock at the time of grant. The risk-free interest rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of the grant. During the six months ended September 30, 2008 and 2007, the Company granted 38,500 and 15,000 stock options, respectively. The weighted average fair value of stock options granted during the six months ended September 30, 2008 and 2007 was $1.09 and $2.31 per option, respectively.

	Risk Free Interest Rate	Expected Life (years)	Expected Volatility	Expected Dividends
Fiscal 2009	2.99%	6.25	20.20%	2.77%
Fiscal 2008	4.82%	6.25	14.69%	3.11%

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 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. In accordance with Statement of Position ("SOP") 93-6, Employer's Accounting for Employee Stock Ownership Plans, 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 and six months ended September 30, 2008, stock options for 413,472 shares of common stock were excluded in computing diluted EPS because they were antidilutive. There were no antidilutive stock options for the three months and six months ended September 30, 2007.

	Three months Ended September 30, 2008	Three months Ended September 30, 2007	Six months Ended September 30, 2008	Six months Ended September 30, 2007
Basic EPS computation:				
Numerator-net income (loss)	$ (4,198,000)	$ 2,430,000	$ (3,405,000)	$ 5,269,000
Denominator-weighted average common shares outstanding	10,692,838	10,904,464	10,685,459	11,146,813
Basic EPS	$ (0.39)	$ 0.22	$ (0.32)	$ 0.47
Diluted EPS computation:				
Numerator-net income (loss)	$ (4,198,000)	$ 2,430,000	$ (3,405,000)	$ 5,269,000
Denominator-weighted average common shares outstanding	10,692,838	10,904,464	10,685,459	11,146,813
Effect of dilutive stock options	-	122,134	-	128,749
Weighted average common shares and common stock equivalents	10,692,838	11,026,598	10,685,459	11,275,562
Diluted EPS	$ (0.39)	$ 0.22	$ (0.32)	$ 0.47

5. INVESTMENT SECURITIES

The amortized cost and approximate 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
September 30, 2008				
Municipal bonds	$ 536	$ -	$ -	$ 536

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

September 30, 2008	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	-	-
Due after ten years	536	536
Total	$ 536	$ 536

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2008				
Trust preferred	$ 1,586	$ -	$ -	$ 1,586
Agency securities	5,000	70	-	5,070

Municipal bonds		2,785		32		-		2,817
Total	$	9,371	$	102	$	-	$	9,473
March 31, 2008								
Trust Preferred	$	5,000	$	-	$	(388)	$	4,612
Municipal bonds		2,825		50		-		2,875
Total	$	7,825	$	50	$	(388)	$	7,487

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

September 30, 2008	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 481	$ 483
Due after one year through five years	5,530	5,611
Due after five years through ten years	619	638
Due after ten years	2,741	2,741
Total	$ 9,371	$ 9,473

Investment securities with an amortized cost of $1.1 million and a fair value of $1.2 million at September 30, 2008 and March 31, 2008, were pledged as collateral for treasury tax and loan funds held by the Bank. Investment securities with an amortized cost of $1.4 million and $484,000 and a fair value of $1.5 million and $491,000 at September 30, 2008 and March 31, 2008, respectively, were pledged as collateral for government 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 as of March 31, 2008 are as follows (in thousands):

	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Trust Preferred	$ 4,612	$ (388)	$ -	$ -	$ 4,612	$ (388)

In the second quarter of fiscal 2009, the Company recognized a $3.4 million non-cash other than temporary impairment (OTTI) charge on the above investment security. Based on a number of factors, including the magnitude of the decline in the estimated fair value below the Company's cost and a decline in the investment rating of the security, management concluded that the decline in value was other than temporary at September 30, 2008. Accordingly, the non-cash impairment charge was realized on the accompanying consolidated statements of income.

The Company realized no gains or losses on sales of investment securities for the six month periods ended September 30, 2008 and 2007.

6. MORTGAGE-BACKED SECURITIES

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

September 30, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Real estate mortgage investment conduits	$ 468	$ -	$ (1)	$ 467
FHLMC mortgage-backed securities	99	1	-	100
FNMA mortgage-backed securities	131	3	-	134
Total	$ 698	$ 4	$ (1)	$ 701

March 31, 2008

Real estate mortgage investment conduits	$	624	$	2	$	-	$	626
FHLMC mortgage-backed securities		104		1		-		105
FNMA mortgage-backed securities		157		4		-		161
Total	$	885	$	7	$	-	$	892

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

September 30, 2008		Amortized Cost		Estimated Fair Value
Due in one year or less	$	-	$	-
Due after one year through five years		4		5
Due after five years through ten years		7		7
Due after ten years		687		689
Total	$	698	$	701

Mortgage-backed securities held to maturity with an amortized cost of $581,000 and $631,000 and a fair value of $581,000 and $633,000 at September 30, 2008 and March 31, 2008, respectively, were pledged as collateral for government public funds held by the Bank. Mortgage-backed securities held to maturity with an amortized cost of $113,000 and $138,000 and a fair value of $114,000 and $141,000 at September 30, 2008 and March 31, 2008, respectively, were pledged as collateral for treasury tax and loan funds held by the Bank. The real estate mortgage investment conduits consist of Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") and Federal National Mortgage Association ("FNMA" or "Fannie Mae") securities.

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

September 30, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Real estate mortgage investment conduits	$ 737	$ 5	$ -	$ 742
FHLMC mortgage-backed securities	3,804	-	(59)	3,745
FNMA mortgage-backed securities	78	2	-	80
Total	$ 4,619	$ 7	$ (59)	$ 4,567
March 31, 2008				
Real estate mortgage investment conduits	$ 851	$ 8	$ (1)	$ 858
FHLMC mortgage-backed securities	4,393	1	(4)	4,390
FNMA mortgage-backed securities	87	3	-	90
Total	$ 5,331	$ 12	$ (5)	$ 5,338

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

September 30, 2008	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	4,138	4,084
Due after ten years	481	483
Total	$ 4,619	$ 4,567

Expected maturities of mortgage-backed securities held to maturity and available for sale will differ from contractual maturities because borrowers may have the right to prepay obligations.

Mortgage-backed securities available for sale with an amortized cost of $4.5 million and $5.2 million and a fair value of $4.5 million and $5.2 million at September 30, 2008 and March 31, 2008, respectively, were pledged as collateral for Federal Home Loan Bank ("FHLB") advances. Mortgage-backed securities available for sale with an amortized cost of $75,000 and $62,000 and a fair value of $77,000 and $64,000 at September 30, 2008 and March 31, 2008, respectively, were pledged as collateral for government public funds held by the Bank.

The fair value of temporarily impaired mortgage-backed securities, the amount of unrealized losses and the length of time these unrealized losses existed as of September 30, 2008 are as follows (in thousands):

	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

FHLMC mortgage-backed securities	1,691	(26)	2,054	(33)	3,745	(59)

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The fair value of temporarily impaired mortgage-backed securities, the amount of unrealized losses and the length of time these unrealized losses existed as of March 31, 2008 are as follows (in thousands):

	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Real estate mortgage investment conduits	$ 501	$ (1)	$ -	$ -	$ 501	$ (1)
FHLMC mortgage-backed securities	-	-	2,393	(4)	2,393	(4)
Total temporarily impaired securities	$ 501	$ (1)	$ 2,393	$ (4)	$ 2,894	$ (5)

The unrealized losses on the above mortgage-backed securities are primarily attributable to increases in market interest rates subsequent to their purchase by the Company. The Company expects the fair value of these 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 any of the securities are impaired due to reasons of credit quality or related to any company or industry specific event. Based on management's evaluation and intent, none of the unrealized losses summarized in this table are considered other than temporary. The Company realized no gains or losses on sales of mortgage-backed securities for the six month periods ended September 30, 2008 and 2007. The Company does not believe that it has any exposure to sub-prime lending in its mortgage-backed securities portfolio.

7. LOANS RECEIVABLE

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

	September 30, 2008	March 31, 2008
Commercial and construction		
Commercial	$ 123,569	$ 109,585
Other real estate mortgage	442,482	429,422
Real estate construction	134,930	148,631
Total commercial and construction	700,981	687,638
Consumer		
Real estate one-to-four family	82,062	75,922
Other installment	3,472	3,665
Total consumer	85,534	79,587
Total loans	786,515	767,225
Less:		
Allowance for loan losses	16,124	10,687
Loans receivable, net	$ 770,391	$ 756,538

The Company considers its loan portfolio to have very little exposure to sub-prime mortgage loans since the Company has historically not 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 income (loss). As of September 30, 2008 and March 31, 2008, 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 September 30,		Six months Ended September 30,	
	2008	2007	2008	2007
Beginning balance	$ 13,107	$ 8,728	$ 10,687	$ 8,653
Provision for losses	7,200	400	9,950	450
Charge-offs	(4,190)	(69)	(4,538)	(74)
Recoveries	7	3	25	33
Total allowance for loan losses, ending balance	$ 16,124	$ 9,062	$ 16,124	$ 9,062

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

	Three months Ended September 30,		Six months Ended September 30,	
	2008	2007	2008	2007
Beginning balance	$ 299	$ 382	$ 337	$ 380
Net change in allowance for unfunded loan commitments	(13)	40	(51)	42
Ending balance	$ 286	$ 422	$ 286	$ 422

Loans on which the accrual of interest has been discontinued were \$21.8 million and \$7.6 million at September 30, 2008 and March 31, 2008, respectively. Interest income foregone on non-accrual loans was \$853,000 and \$9,000 during the six months ended September 30, 2008 and 2007, respectively.

At September 30, 2008 and March 31, 2008, impaired loans were \$27.1 million and \$7.2 million, respectively. At September 30, 2008 and March 31, 2008, all of the impaired loans had specific valuation allowances of \$5.8 million and \$902,000, respectively. 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. The average balance in impaired loans was \$21.1 million and \$2.0 million during the six months ended September 30, 2008 and the year ended March 31, 2008, respectively. The related amount of interest income recognized on loans that were impaired was \$269,000 and \$49,000 during the six months ended September 30, 2008 and 2007, respectively. Loans past due 90 days or more and still accruing interest were \$320,000 and \$115,000 at September 30, 2008 and March 31, 2008 respectively.

9. MORTGAGE SERVICING RIGHTS

The following table is a summary of the activity in mortgage servicing rights ("MSRs") and the related allowance for the periods indicated and other related financial data (in thousands):

Three months Ended September 30,		Six months Ended September 30,	
2008	2007	2008	2007

Balance at beginning of period, net	$ 282	$ 347	$ 302	$ 351
Additions	27	35	49	69
Amortization	(36)	(51)	(84)	(102)
Change in valuation allowance	(2)	1	4	14
Balance at end of period, net	$ 271	$ 332	$ 271	$ 332
Valuation allowance at beginning of period	$ 1	$ 22	$ 7	$ 35
Change in valuation allowance	2	(1)	(4)	(14)
Valuation allowance at end of period	$ 3	$ 21	$ 3	$ 21

The Company evaluates MSRs for impairment by stratifying MSRs based on the predominant risk characteristics of the underlying financial assets. At September 30, 2008 and March 31, 2008, the estimated fair value of MSRs was $1.0 million. The September 30, 2008 fair value was estimated using various discount rates and a range of Prepayment Standard Assumption (PSA) values (the Bond Market Association’s standard prepayment values) that ranged from 132 to 417.

10. BORROWINGS

Borrowings are summarized as follows (dollars in thousands):

	At September 30, 2008	At March 31, 2008
Federal Home Loan Bank advances	$ 136,660	$ 92,850
Weighted average interest rate:	2.46%	3.35%

Borrowings have the following maturities at September 30, 2008 (in thousands):

2009	$ 111,660
2010	25,000
Total	$ 136,660

11. JUNIOR SUBORDINATED DEBENTURE

At September 30, 2008, the Company had established two wholly-owned subsidiary grantor trusts 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 September 30, 2008, 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 September 30, 2008 and March 31, 2008, 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 September 30, 2008:

Issuance Trust	Issuance Date	Amount Outstanding	Rate Type	Initial Rate	Rate	Maturing Date
			(dollars in thousands)			
Riverview Bancorp Statutory Trust I	12/2005	$ 7,217	Variable (1)	5.88%	4.18%	3/2036
Riverview Bancorp	6/2007	15,464	Fixed (2)	7.03%	7.03%	9/2037

Statutory Trust II			
	Total	$	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.

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12. FAIR VALUE MEASUREMENT

SFAS No. 157, “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 tables presents fair value measurements for assets that are measured at fair value on a recurring basis subsequent to initial recognition (in thousands).

		Fair value measurements at September 30, 2008, using		
	Fair value September 30, 2008	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Available for sale securities	$ 14,040	$ -	$ 12,454	$ 1,586
Total recurring assets measured at fair value	$ 14,040	$ -	$ 12,454	$ 1,586

The following tables present a reconciliation of assets that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three and six months ended September 30, 2008 (in thousands).

For the Three months Ended

	September 30, 2008
	Available for sale securities
Balance at June 30, 2008	$ -
Included in earnings (1)	(3,414)
Included in other comprehensive income (2)	950
Transfers in to Level 3	4,050
Balance at September 30, 2008	1,586

(1) Included in other non-interest income
(2) Reversal of previously recorded unrealized loss

	For the Six months Ended September 30, 2008
	Available for sale securities
Balance at March 31, 2008	$ -
Included in earnings (1)	(3,414)
Included in other comprehensive income (2)	388
Transfers in to Level 3	4,612
Balance at September 30, 2008	1,586

(1) Included in other non-interest income
(2) Reversal of previously recorded unrealized loss

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

Securities – Fair values for available for sale securities are based on quoted market prices when available or through the use of alternative approaches, such as matrix or model pricing, indicators from market makers or discounted cash flows, when market quotes are not readily accessible or available.

Certain assets and liabilities are measured at fair value on a nonrecurring basis after initial recognition such as loans measured for impairment. The following table represents the fair value measurement for nonrecurring assets (in thousands).

		Fair value measurements at September 30, 2008, using		
	Fair value September 30, 2008	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Loans measured for impairment	$ 21,271	$ -	$ -	$ 21,271
Total nonrecurring assets measured at fair value	$ 21,271	$ -	$ -	$ 21,271

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 as a practical expedient, at the loan's observable market price or the fair market value less sales cost of the collateral if the loan is collateral dependent.

13. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. The Company's adoption of SFAS No. 157 on April 1, 2008 did not have a material impact on the consolidated financial statements. See Footnote 12 "Fair Value Measurement" for further information.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115." SFAS No. 159 permits companies to choose, at specified election dates, to measure eligible items at fair value. The standard is designed to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. The Company's adoption of SFAS No. 159 on April 1, 2008 did not have a material impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised), "Business Combinations." SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and the goodwill acquired. The standard also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. Management is currently evaluating the potential impact on the Company's financial position, results of operations and cash flows of SFAS No. 141(R).

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB No. 51.” SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The standard also requires additional disclosures that clearly identify and distinguish between the interests of the parent’s owners and the interest of the noncontrolling owners of the subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. Management is currently evaluating the potential impact on the Company’s financial position, results of operations and cash flows of SFAS No. 160.

In October 2008, the FASB issued FASB Staff Position 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” (“FSP 157-3”). FSP 157-3 clarifies the application of SFAS No. 157 “Fair Value measurements”, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The Company has adopted FSP 157-3 and incorporated the guidance in determining fair value as of September 30, 2008.

14. 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 September 30, 2008, a schedule of significant off-balance sheet commitments are listed below (in thousands):

	Contract or Notional Amount	
Commitments to originate loans:		
Adjustable-rate	$	29,266
Fixed-rate		7,922
Standby letters of credit		1,754
Undisbursed loan funds, and unused lines of credit		146,274
Total	$	185,216

At September 30, 2008, the Company had commitments to sell residential loans to the FHLMC totaling $773,000.

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 September 30, 2008, loans under warranty totaled $103.8 million, which substantially represents the unpaid principal balance of the Company’s loans serviced for others. The Bank believes that the potential for loss under these arrangements is remote. Accordingly, no contingent liability is recorded in the financial statements.

As of September 30, 2008, the Company has entered into contractual obligations to make future payments as follows (in thousands):

	Within 1 year	1-3 Years	3-5 Years	After 5 Years	Total Balance
Certificates of deposit	$ 249,428	$ 20,338	$ 6,916	$ 2,625	$ 279,307
FHLB advances	136,660	-	-	-	136,660
Junior subordinated debentures	-	-	-	22,681	22,681
Operating leases	1,680	2,198	1,626	3,305	8,809
Total other contractual obligations	$ 387,768	$ 22,536	$ 8,542	$ 28,611	$ 447,457

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.

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

Management's Discussion and Analysis and other portions of this report contain statements that the Company believes are "forward-looking statements". These statements relate to the Company's financial condition, results of operations, plans, objectives, future performance or business. You should not place undue reliance on these statements, as they are subject to risks and uncertainties. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements the Company may make. 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. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors which could cause actual results to differ materially include, but are not limited to, the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes and other properties and fluctuations in real estate values in our market areas; results of examinations of us by the Office of Thrift Supervision ("OTS") and our bank subsidiaries by the Federal Deposit Insurance Corporation ("FDIC") or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our reserve for loan losses or to write-down assets; our ability to control operating costs and expenses; our ability to implement our branch expansion strategy; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we have acquired or may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; legislative or regulatory changes that adversely affect our business; 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; war or terrorist activities; other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and other risks detailed in the Company's reports filed with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended March 31, 2008.

Critical Accounting Policies

Critical accounting policies and estimates are discussed in our 2008 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 contained in the Company's 2008 Form 10-K.

Non-GAAP Financial Information

This report contains certain financial information determined by methods other than in accordance with 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. A reconciliation of net interest income as reported to net interest income on a fully tax equivalent basis are contained in the tables under “Net Interest Income.”

Executive Overview

Financial Highlights. Net loss for the three months ended September 30, 2008 was $4.2 million, or $0.39 per basic share ($0.39 per diluted share), compared to net income of $2.4 million, or $0.22 per basic share ($0.22 per diluted share) for the three months ended September 30, 2007. Net interest income after provision for loan losses decreased $6.9 million to $1.4 million for the three months ended September 30, 2008 compared to $8.3 million for the same quarter last year. Non-interest income decreased $3.5 million for the three months ended September 30, 2008 compared to the same prior year period. Non-interest expense decreased $123,000 for the quarter-ended September 30, 2008 compared to the same quarter last year.

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Net loss for the six months ended September 30, 2008 was $3.4 million, or $0.32 per basic share ($0.32 per diluted share), compared to net income of $5.3 million, or $0.47 per basic share ($0.47 per diluted share) for the six months ended September 30, 2007.

The annualized return on average assets was (1.86)% for the three months ended September 30, 2008, compared to 1.19% for the three months ended September 30, 2007. For the same periods, the annualized return on average common equity was (17.66)% compared to 9.98%, respectively. The efficiency ratio was 91.53% for the second quarter of fiscal 2009 compared to 62.61% for the same period last year. The increase in the efficiency ratio is primarily a result of the $3.4 million non-cash impairment charge for the investment security taken during the second quarter.

The Company is a progressive, community-oriented financial institution, which 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 and construction loans have grown from 72.42% of the loan portfolio at March 31, 2003 to 89.13% of the loan portfolio at September 30, 2008. The Company's strategic plan emphasizes 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 diversification while including a significant amount of commercial and commercial real estate loans in its loan portfolio. Significant portions of these new loan products carry adjustable rates, higher yields or shorter terms but also carry 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. 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 18 branches including ten in fast growing Clark County, four in the Portland metropolitan area and four lending centers.

In order to support the Company's strategy of growth without compromising its local, personal service to its customers and a commitment to asset quality, the Company has made significant investments in experienced branch, lending, asset management and support personnel and has incurred significant costs in facility expansion and in our infrastructure. Not withstanding the impact of the impairment of investment security, the Company's efficiency ratio reflects this investment and will likely remain relatively high by industry standards for the foreseeable future as a result of the emphasis on growth and local, personal service. Working to control its non-interest expenses remains a high priority for the Company's management.

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. In-house processing of 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 selected branches and is in the process of implementing remote capture of checks on site for selected customers of the Bank. Emphasis on enhancing the Bank's cash management product line is in process with the hiring of an experienced cash management officer. The formation of a team consisting of this cash management officer and existing Bank employees is expected to lead to a more robust cash management product line for the Bank's commercial customers. 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's online service has also enhanced the delivery of cash management services to commercial customers. During the second quarter, the Company began offering Certificate of Deposit Registry Service (CDARS™) deposits. Through the

CDARS™ program, customers can now access FDIC insurance up to $50 million. The Company also implemented Check 21 during the second quarter, which will allow the Company to process checks faster and more efficiently.

The Company conducts operations from its home office in Vancouver and 18 branch offices in Camas, Washougal, Stevenson, White Salmon, Battle Ground, Goldendale, Vancouver (seven branch offices) and Longview, Washington and Portland (two branch offices), Wood Village and Aumsville, Oregon. The Company operates a trust and financial services company, RAM Corp., located in downtown Vancouver. Riverview Mortgage, a mortgage broker division of the Company, originates mortgage loans for various mortgage companies predominantly in the Vancouver/Portland metropolitan areas, as well as for the Company. The Business and Professional Banking Division, with two lending offices in Vancouver and two lending offices 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.

In recent years, national real estate and home values have increased substantially, as a result of the generally strong national economy, speculative investing, and aggressive lending practices that provided loans to marginal borrowers (generally termed as “subprime” loans). The strong economy also resulted in significant increases in residential and commercial real estate values and commercial and residential construction. The national and regional residential lending market has experienced a noted slowdown in recent months, as loan delinquencies and foreclosure rates have increased. 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. A continued economic downturn recently, and more specifically a continued slowdown in residential real estate sales, has resulted in further uncertainty in the financial markets. As a result, the Company has experienced a further decline in the values of real estate collateral supporting certain of its construction real estate and land acquisition and development loans and has seen signs for the potential for increased loan delinquencies. In addition, competition among financial institutions for deposits has also increased.

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.

September 30, 2008	Commercial	Other Real Estate Mortgage	Real Estate Construction	Commercial & Construction Total
	(in thousands)			
Commercial	$ 123,569	$ -	$ -	$ 123,569
Commercial construction	-	-	50,925	50,925
Office buildings	-	83,168	-	83,168
Warehouse/industrial	-	41,501	-	41,501
Retail/shopping centers/strip malls	-	81,007	-	81,007
Assisted living facilities	-	30,553	-	30,553
Single purpose facilities	-	79,307	-	79,307
Land	-	99,668	-	99,668
Multi-family	-	27,278	-	27,278
One-to-four family construction	-	-	84,005	84,005
Total	$ 123,569	$ 442,482	$ 134,930	$ 700,981

March 31, 2008	Commercial	Other Real Estate Mortgage	Real Estate Construction	Commercial & Construction Total
	(in thousands)			

Commercial	$ 109,585	$ -	$ -	$ 109,585
Commercial construction	-	-	55,277	55,277
Office buildings	-	88,106	-	