RIVERVIEW BANCORP INC
Form 10-Q
February 08, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2018

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 every Interactive Data File required to be submitted 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 such files). Yes [X] No [ ]

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]
Smaller reporting company [X] 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, 22,607,712 shares outstanding as of February 8, 2019.

Form 10-Q

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
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Forward-Looking Statements

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

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: When used in this Form 10-Q, the words "believes," "expects," "anticipates," "estimates," "forecasts," "intends," "plans," "targets," "potentially," "probably," "projects," "outlook," or similar expressions or future or conditional verbs such as "may," "will," "should," "would," and "could," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future performance. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated, including, but not limited to: the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in the Company's allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets; changes in general economic conditions, either nationally or in the Company's market areas; changes in the levels of general interest rates, and the relative differences between short and long-term interest rates, deposit interest rates, the Company's net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in the Company's market areas; secondary market conditions for loans and the Company's ability to sell loans in the secondary market; results of examinations of our bank subsidiary, Riverview Community Bank, by the Office of the Comptroller of the Currency and of the Company by the Board of Governors of the Federal Reserve System, or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require the Company to increase its allowance for loan losses, write-down assets, reclassify its assets, change Riverview Community Bank's regulatory capital position or affect the Company's ability to borrow funds or maintain or increase deposits, which could adversely affect its liquidity and earnings; legislative or regulatory changes that adversely affect the Company's business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III; the Company's ability to attract and retain deposits; increases in premiums for deposit insurance; the Company's ability to control operating costs and expenses; the use of estimates in determining fair value of certain of the Company's assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risks associated with the loans on the Company's consolidated balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect the Company's workforce and potential associated charges; disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems or on the third-party vendors who perform several of our critical processing functions; the Company's ability to retain key members of its senior management team; costs and effects of litigation, including settlements and judgments; the Company's ability to implement its business strategies; the Company's ability to successfully integrate any assets, liabilities, customers, systems, and management personnel it may acquire into its operations and the Company's ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; the Company's ability to pay dividends on its common stock and interest or principal payments on its junior subordinated debentures; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting standards; 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 2019 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 AS OF
DECEMBER 31, 2018 AND MARCH 31, 2018

(In thousands, except share and per share data) (Unaudited)	December 31, 2018	March 31, 2018
ASSETS		
Cash and cash equivalents (including interest-earning accounts of $4,641 and $30,052)	$23,394	$44,767
Certificates of deposit held for investment	747	5,967
Loans held for sale	-	210
Investment securities:		
Available for sale, at estimated fair value	182,280	213,221
Held to maturity, at amortized cost (estimated fair value of $37 and $43)	36	42
Loans receivable (net of allowance for loan losses of $11,502 and $10,766)	857,134	800,610
Real estate owned ("REO")	-	298
Prepaid expenses and other assets	4,021	3,870
Accrued interest receivable	3,789	3,477
Federal Home Loan Bank ("FHLB") stock, at cost	2,735	1,353
Premises and equipment, net	14,940	15,783
Deferred income taxes, net	4,680	4,813
Mortgage servicing rights, net	325	388
Goodwill	27,076	27,076
Core deposit intangible ("CDI"), net	966	1,103
Bank owned life insurance ("BOLI")	29,102	28,557
TOTAL ASSETS	$1,151,225	$1,151,535
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits	$943,578	$995,691
Accrued expenses and other liabilities	15,855	9,391
Advanced payments by borrowers for taxes and insurance	192	637
FHLB advances	34,543	-
Junior subordinated debentures	26,553	26,484
Capital lease obligation	2,410	2,431
Total liabilities	1,023,131	1,034,634
COMMITMENTS AND CONTINGENCIES (See Note 15)		
SHAREHOLDERS' EQUITY:		
Serial preferred stock, $.01 par value; 250,000 authorized; issued and outstanding: none	-	-
Common stock, $.01 par value; 50,000,000 authorized		
December 31, 2018 – 22,598,712 issued and outstanding	226	226
March 31, 2018 – 22,570,179 issued and outstanding		
Additional paid-in capital	65,056	64,871
Retained earnings	67,126	56,552
Accumulated other comprehensive loss	(4,314)	(4,748)

Total shareholders' equity	128,094	116,901
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,151,225	$1,151,535

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED
DECEMBER 31, 2018 AND 2017

	Three Months Ended December 31,		Nine Months Ended December 31,	
(In thousands, except share and per share data) (Unaudited)	2018	2017	2018	2017
INTEREST AND DIVIDEND INCOME:				
Interest and fees on loans receivable	$11,129	$9,978	$32,849	$29,761
Interest on investment securities – taxable	1,110	1,201	3,424	3,413
Interest on investment securities – nontaxable	37	31	110	59
Other interest and dividends	60	168	271	483
Total interest and dividend income	12,336	11,378	36,654	33,716
INTEREST EXPENSE:				
Interest on deposits	240	298	759	933
Interest on borrowings	416	284	1,126	829
Total interest expense	656	582	1,885	1,762
Net interest income	11,680	10,796	34,769	31,954
Provision for loan losses	-	-	50	-
Net interest income after provision for loan losses	11,680	10,796	34,719	31,954
NON-INTEREST INCOME:				
Fees and service charges	1,511	1,451	4,956	4,348
Asset management fees	935	911	2,804	2,582
Net gains on sales of loans held for sale	82	140	278	522
BOLI	192	207	545	618
Other, net	62	181	267	271
Total non-interest income, net	2,782	2,890	8,850	8,341
NON-INTEREST EXPENSE:				
Salaries and employee benefits	5,794	5,383	16,655	16,056
Occupancy and depreciation	1,306	1,347	4,016	4,105
Data processing	621	534	1,874	1,730
Amortization of CDI	45	58	137	174
Advertising and marketing	151	137	609	627
FDIC insurance premium	85	108	246	389
State and local taxes	125	96	475	427
Telecommunications	85	102	266	309
Professional fees	449	250	1,120	926
Other	142	543	1,339	1,748
Total non-interest expense	8,803	8,558	26,737	26,491
INCOME BEFORE INCOME TAXES	5,659	5,128	16,832	13,804
PROVISION FOR INCOME TAXES	1,271	3,608	3,773	6,571
NET INCOME	$4,388	$1,520	$13,059	$7,233
Earnings per common share:				
Basic	$0.19	$0.07	$0.58	$0.32
Diluted	0.19	0.07	0.58	0.32
Weighted average number of common shares outstanding:				

Basic	22,598,712	22,537,092	22,582,956	22,520,352
Diluted	22,663,919	22,622,129	22,658,153	22,608,603

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED
DECEMBER 31, 2018 AND 2017

(In thousands) (Unaudited)	Three Months Ended December 31, 2018	2017	Nine Months Ended December 31, 2018	2017
Net income	$4,388	$1,520	$13,059	$7,233
Other comprehensive income (loss):				
Net unrealized holding gain (loss) from available for sale investment securities arising during the period, net of tax of ($673), $496, ($134) and $174, respectively	2,188	(900)	434	(317)
Total comprehensive income, net	$6,576	$620	$13,493	$6,916

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE NINE MONTHS ENDED DECEMBER 31, 2018 AND 2017

(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 Plan ("ESOP")	Accumulated Other Comprehensive Loss	Total
Balance April 1, 2017	22,510,890	$ 225	$ 64,468	$ 48,335	$ (77)	$ (1,687)	$ 111,264
Net income	-	-	-	7,233	-	-	7,233
Cash dividend on common stock ($0.075 per share)	-	-	-	(1,690)	-	-	(1,690)
Exercise of stock options	41,022	1	164	-	-	-	165
Earned ESOP shares	-	-	71	-	77	-	148
Other comprehensive loss, net	-	-	-	-	-	(317)	(317)
Balance December 31, 2017	22,551,912	$ 226	$ 64,703	$ 53,878	$ -	$ (2,004)	$ 116,803
Balance April 1, 2018	22,570,179	$ 226	$ 64,871	$ 56,552	$ -	$ (4,748)	$ 116,901
Net income	-	-	-	13,059	-	-	13,059
Cash dividend on common stock ($0.110 per share)	-	-	-	(2,485)	-	-	(2,485)
Exercise of stock options	28,533	-	151	-	-	-	151
Stock-based compensation expense	-	-	34	-	-	-	34
Other comprehensive income, net	-	-	-	-	-	434	434
Balance December 31, 2018	22,598,712	$ 226	$ 65,056	$ 67,126	$ -	$ (4,314)	$ 128,094

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2018 AND 2017

(In thousands) (Unaudited)	Nine Months Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$13,059	$7,233
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,045	2,207
Purchased loans accretion, net	(47)	(209)
Provision for loan losses	50	-
Provision for deferred income taxes	-	3,796
Expense related to ESOP	-	148
Stock-based compensation expense	34	-
Increase in deferred loan origination fees, net of amortization	599	238
Origination of loans held for sale	(8,944)	(16,631)
Proceeds from sales of loans held for sale	9,303	17,120
Net gains on loans held for sale and sale of REO	(644)	(603)
Income from BOLI	(545)	(618)
Changes in certain other assets and liabilities:		
Prepaid expenses and other assets	(261)	(1,151)
Accrued interest receivable	(312)	(523)
Accrued expenses and other liabilities	6,326	(4,070)
Net cash provided by operating activities	20,663	6,937
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan repayments (originations), net	(36,726)	14,662
Purchases of loans receivable	(20,318)	(32,198)
Principal repayments on investment securities available for sale	20,591	21,236
Purchases of investment securities available for sale	-	(47,493)
Proceeds from calls and maturities of investment securities available for sale	10,000	-
Principal repayments on investment securities held to maturity	6	20
Redemption of certificates of deposit held for investment	5,220	4,079
Purchase of FHLB stock	(1,382)	(42)
Purchases of premises and equipment and capitalized software	(304)	(364)
Proceeds from sales of REO and premises and equipment	975	81
Net cash used in investing activities	(21,938)	(40,019)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposits	(52,067)	(7,729)
Dividends paid	(2,259)	(1,462)
Proceeds from borrowings	166,255	19,675
Repayment of borrowings	(131,712)	(18,625)
Net decrease in advance payments by borrowers for taxes and insurance	(445)	(433)
Principal payments on capital lease obligation	(21)	(17)
Proceeds from exercise of stock options	151	165
Net cash used in financing activities	(20,098)	(8,426)

NET DECREASE IN CASH AND CASH EQUIVALENTS	(21,373)	(41,508)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	44,767	64,613
CASH AND CASH EQUIVALENTS, END OF PERIOD	$23,394	$23,105
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$1,811	$1,640
Income taxes	5,063	3,279
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Dividends declared and accrued in other liabilities	$904	$678
Other comprehensive income (loss)	568	(491)
Income tax effect related to other comprehensive income (loss)	(134)	174

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 accompanying 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, 2018 ("2018 Form 10-K"). The unaudited consolidated results of operations for the nine months ended December 31, 2018 are not necessarily indicative of the results which may be expected for the entire fiscal year ending March 31, 2019.

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

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

Income taxes are accounted for using the asset and liability method. Under this method, a deferred tax asset or liability is determined based on the enacted tax rates which will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company's income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017, and – among other provisions – lowered the federal corporate income tax rate. As a result, the Company revalued its deferred tax assets and liabilities during the third quarter of the fiscal year ended March 31, 2018. In addition, the Company utilized a blended tax rate for its fiscal year ended March 31, 2018 given the Tax Act lowered the federal corporate tax rate effective January 1, 2018. For the three and nine months ended December 31, 2018 and for the fiscal year ending March 31, 2019, the Company will utilize the enacted federal corporate income tax rate pursuant to the Tax Act.

In September 2018, the Bank completed a purchase and assumption transaction in which all of the Bank's Longview, Washington branch deposits were sold to a community bank headquartered in Longview. The Bank sold approximately $3.2 million of deposits and recognized a gain on sale of these deposits of approximately $70,000 in the fiscal quarter ended September 30, 2018. This gain on sale of deposits is included in other non-interest income in the accompanying unaudited consolidated statements of income. This purchase and assumption transaction did not include the sale of any loans, or exchange of any assets or liabilities other than deposits. The Bank subsequently sold the Longview branch land and building in December 2018 and recognized a $355,000 gain on sale which is included in other non-interest expense in the accompanying unaudited statements of income for the three and nine months ended December 31, 2018.

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

2. PRINCIPLES OF CONSOLIDATION

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

As of December 31, 2018, the Trust Company had 2,500 Trust Company stock options outstanding which had been granted to the President and Chief Executive Officer of the Trust Company. During the three and nine months ended December 31, 2018, the Trust Company incurred $12,000 and $34,000, respectively, of stock-based compensation expense related to these options. During the year ended March 31, 2018, the Trust Company incurred $88,000 of stock-based compensation expense related to these options. None of the Trust Company stock options were exercised as of December 31, 2018.

3. BUSINESS COMBINATIONS

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

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

In most instances, determining the estimated fair values of the acquired assets and assumed liabilities 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 acquired	$ 10,772	$ (196)	10,576
Goodwill recognized			$ 1,504

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

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

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

4. STOCK PLANS AND STOCK-BASED COMPENSATION

In July 1998, shareholders of the Company approved the adoption of the 1998 Stock Option Plan ("1998 Plan"). The 1998 Plan was effective in 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 respective expiration dates remain outstanding subject to their terms. Each option granted under the 1998 Plan or the 2003 Plan has an exercise price equal to the fair market value of the Company's common stock on the date of the grant, a maximum term of ten years and a vesting period from zero to five years.

In July 2017, the shareholders of the Company approved the 2017 Equity Incentive Plan ("2017 Plan"). The 2017 Plan provides for the grant of incentive stock options, non-qualified stock options, restricted stock and restricted stock units. The Company has reserved 1,800,000 shares of its common stock for issuance under the 2017 Plan, none of which have been awarded.

The 1998 Plan, the 2003 Plan and the 2017 Plan are collectively referred to as "the Stock Option Plans".

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 under the Stock Option Plans during the three and nine months ended December 31, 2018 and 2017.

As of December 31, 2018, all outstanding stock options were fully vested and there was no remaining unrecognized compensation expense under the Stock Option Plans. There was no stock-based compensation expense related to stock options for the three and nine months ended December 31, 2018 and 2017 under the Stock Option Plans.

The following table presents the activity related to stock options under the Stock Option Plans for the periods shown:

	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2017

	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance, beginning of period	141,365	$ 3.77	220,654	$ 4.74
Options exercised	(28,533)	5.30	(41,022)	4.01
Expired	(2,500)	8.12	(33,000)	8.49
Balance, end of period	110,332	$ 3.27	146,632	$ 4.10

The following table presents information on stock options outstanding under the Stock Option Plans as of December 31, 2018 and 2017, less estimated forfeitures:

	2018	2017
Stock options fully vested and expected to vest:		
Number	110,332	146,632
Weighted average exercise price	$3.27	$4.10
Aggregate intrinsic value [(1)]	$442,000	$678,000
Weighted average contractual term of options (years)	2.44	2.93
Stock options fully vested and currently exercisable:		
Number	110,332	146,632
Weighted average exercise price	$3.27	$4.10
Aggregate intrinsic value [(1)]	$442,000	$678,000
Weighted average contractual term of options (years)	2.44	2.93

[(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.

The total intrinsic value of stock options exercised under the Stock Option Plans was $118,000 and $170,000 for the nine months ended December 31, 2018 and 2017, respectively.

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 December 31, 2018 and 2017, all shares under the Company's ESOP were allocated. For the three and nine months ended December 31, 2018, there were no stock options excluded in computing diluted EPS. For the three and nine months ended December 31, 2017, stock options for 5,000 shares and 12,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Basic EPS computation:				
Numerator-net income	$4,388,000	$1,520,000	$13,059,000	$7,233,000
Denominator-weighted average common shares outstanding	22,598,712	22,537,092	22,582,956	22,520,352
Basic EPS	$0.19	$0.07	$0.58	$0.32
Diluted EPS computation:				

Numerator-net income	$4,388,000	$1,520,000	$13,059,000	$7,233,000
Denominator-weighted average common shares outstanding	22,598,712	22,537,092	22,582,956	22,520,352
Effect of dilutive stock options	65,207	85,037	75,197	88,251
Weighted average common shares and common stock equivalents	22,663,919	22,622,129	22,658,153	22,608,603
Diluted EPS	$0.19	$0.07	$0.58	$0.32

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
December 31, 2018				
Available for sale:				
Municipal securities	$ 8,924	$ 2	$ (247)	$ 8,679
Agency securities	12,423	3	(246)	12,180
Real estate mortgage investment conduits (1)	42,561	1	(1,111)	41,451
Residential mortgage-backed securities (1)	80,390	2	(2,565)	77,827
Other mortgage-backed securities (2)	43,620	5	(1,482)	42,143
Total available for sale	$ 187,918	$ 13	$ (5,651)	$ 182,280
Held to maturity:				
Residential mortgage-backed securities (3)	$ 36	$ 1	$ -	$ 37
March 31, 2018				
Available for sale:				
Municipal securities	$ 9,041	$ -	$ (309)	$ 8,732
Agency securities	22,412	1	(311)	22,102
Real estate mortgage investment conduits (1)	48,310	-	(1,355)	46,955
Residential mortgage-backed securities (1)	91,786	3	(2,715)	89,074
Other mortgage-backed securities (2)	47,878	1	(1,521)	46,358
Total available for sale	$ 219,427	$ 5	$ (6,211)	$ 213,221
Held to maturity:				
Residential mortgage-backed securities (3)	$ 42	$ 1	$ -	$ 43

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

The contractual maturities of investment securities as of December 31, 2018 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	$ 5,138	$ 5,111	$ -	$ -
Due after one year through five years	8,392	8,269	33	33
Due after five years through ten years	50,031	48,689	-	-
Due after ten years	124,357	120,211	3	4
Total	$ 187,918	$ 182,280	$ 36	$ 37

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

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

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
December 31, 2018						
Available for sale:						
Municipal securities	$1,103	$ (41)	$6,415	$ (206)	$7,518	$ (247)
Agency securities	1,001	(2)	9,164	(244)	10,165	(246)
Real estate mortgage investment conduits (2)	2,126	(11)	39,284	(1,100)	41,410	(1,111)
Residential mortgage-backed securities (2)	4,273	(64)	73,365	(2,501)	77,638	(2,565)
Other mortgage-backed securities (3)	977	(14)	40,547	(1,468)	41,524	(1,482)
Total available for sale	$9,480	$ (132)	$168,775	$ (5,519)	$178,255	$ (5,651)
March 31, 2018						
Available for sale:						
Municipal securities	$6,626	$ (236)	$2,106	$ (73)	$8,732	$ (309)
Agency securities	5,301	(112)	15,797	(199)	21,098	(311)
Real estate mortgage investment conduits (1)	31,922	(774)	14,983	(581)	46,905	(1,355)
Residential mortgage-backed securities (2)	50,941	(1,192)	37,823	(1,523)	88,764	(2,715)
Other mortgage-backed securities (3)	16,355	(382)	29,351	(1,139)	45,706	(1,521)
Total available for sale	$111,145	$ (2,696)	$100,060	$ (3,515)	$211,205	$ (6,211)

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

The Company had no sales and realized no gains or losses on sales of investment securities for the three and nine months ended December 31, 2018 and 2017. Investment securities available for sale with an amortized cost of $6.0 million and $3.7 million and a fair value of $5.8 million and $3.6 million at December 31, 2018 and March 31, 2018, respectively, were pledged as collateral for government public funds held by the Bank.

7. LOANS RECEIVABLE

Loans receivable as of December 31, 2018 and March 31, 2018 are reported net of deferred loan fees totaling $4.2 million and $3.6 million, respectively. Loans receivable are also reported net of discounts and premiums totaling $1.7 million and $1.8 million as of December 31, 2018, respectively, compared to $2.2 million and $2.0 million, respectively, as of March 31, 2018. Loans receivable, excluding loans held for sale, consisted of the following at the dates indicated (in thousands):

	December 31, 2018	March 31, 2018
Commercial and construction		
Commercial business	$154,360	$137,672
Commercial real estate	468,361	450,597
Land	18,506	15,337
Multi-family	54,930	63,080
Real estate construction	76,518	39,584
Total commercial and construction	772,675	706,270
Consumer		
Real estate one-to-four family	86,240	90,109
Other installment [1]	9,721	14,997
Total consumer	95,961	105,106
Total loans	868,636	811,376
Less: Allowance for loan losses	11,502	10,766
Loans receivable, net	$857,134	$800,610

[1] Consists primarily of purchased automobile loans totaling $7.2 million and $12.9 million at December 31, 2018 and March 31, 2018, respectively.

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The Company considers its loan portfolio to have very little exposure to sub-prime mortgage loans since the Company has not historically engaged in this type of lending. At December 31, 2018, loans carried at $520.0 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 activities are with customers located in the states of Washington and Oregon. Loans and extensions of credit outstanding at one time to one borrower are generally limited by federal regulation to 15% of the Bank's shareholders' equity, excluding accumulated other comprehensive income (loss). As of December 31, 2018 and March 31, 2018, 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 management's ongoing quarterly assessment of the pertinent factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, delinquency levels, actual loan loss experience, current economic conditions and detailed analysis of individual loans for which full 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 loan 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, uncertainties in identifying triggering events that directly correlate to subsequent loss rates, changes in appraised value of underlying collateral, risk factors that have not yet manifested themselves in loss allocation factors and historical loss experience data that may not precisely correspond to the current portfolio or economic conditions. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The appropriate allowance level is estimated based upon factors and trends identified by the Company as of the date of the filing of the consolidated financial statements.

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

Management's evaluation of the allowance for loan losses is based on ongoing, quarterly assessments of the known and inherent risks in the loan portfolio. Loss factors are based on the Company's historical loss experience with additional consideration and adjustments made for changes in economic conditions, changes in the amount and composition of the loan portfolio, delinquency rates, changes in collateral values, seasoning of the loan portfolio, duration of the current business cycle, a detailed analysis of impaired loans and other factors as deemed appropriate.

These factors are evaluated on a quarterly basis. Loss rates used by the Company are affected as changes in these factors increase or decrease from quarter to quarter. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

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

Three months ended December 31, 2018	Commercial Business	Commercial Real Estate	Land	Multi-Family	Real Estate Construction	Consumer	Unallocated	Total
Beginning balance	$ 1,858	$ 5,361	$237	$ 696	$ 1,007	$ 1,641	$ 713	$11,513
Provision for (recapture of) loan losses	84	(80)	31	19	186	(177)	(63)	-
Charge-offs	-	-	-	-	-	(52)	-	(52)
Recoveries	-	-	-	-	-	41	-	41
Ending balance	$ 1,942	$ 5,281	$268	$ 715	$ 1,193	$ 1,453	$ 650	$11,502
Nine months ended December 31, 2018								
Beginning balance	$1,668	$4,914	$220	$822	$618	$1,809	$715	$10,766
Provision for (recapture of) loan losses	274	(456)	48	(107)	575	(219)	(65)	50
Charge-offs	-	-	-	-	-	(236)	-	(236)
Recoveries	-	823	-	-	-	99	-	922
Ending balance	$1,942	$5,281	$268	$715	$1,193	$1,453	$650	$11,502
Three months ended December 31, 2017								
Beginning balance	$1,340	$5,116	$196	$504	$840	$1,890	$731	$10,617
Provision for (recapture of) loan losses	(186)	(26)	(19)	295	(206)	81	61	-
Charge-offs	-	-	-	-	-	(46)	-	(46)
Recoveries	220	65	-	-	-	11	-	296
Ending balance	$1,374	$5,155	$177	$799	$634	$1,936	$792	$10,867
Nine months ended December 31, 2017								
Beginning balance	$1,418	$5,084	$228	$297	$714	$2,099	$688	$10,528
Provision for (recapture of) loan losses	(270)	40	(344)	502	(80)	48	104	-
Charge-offs	-	-	-	-	-	(257)	-	(257)
Recoveries	226	31	293	-	-	46	-	596
Ending balance	$1,374	$5,155	$177	$799	$634	$1,936	$792	$10,867

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

	Allowance for loan losses			Recorded investment in loans		
December 31, 2018	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total

Commercial business	$-	$ 1,942	$1,942	$163	$ 154,197	$154,360
Commercial real estate	-	5,281	5,281	2,523	465,838	468,361
Land	-	268	268	731	17,775	18,506
Multi-family	-	715	715	1,606	53,324	54,930
Real estate construction	-	1,193	1,193	-	76,518	76,518
Consumer	25	1,428	1,453	705	95,256	95,961
Unallocated	-	650	650	-	-	-
Total	$25	$ 11,477	$11,502	$5,728	$ 862,908	$868,636

March 31, 2018

Commercial business	$-	$1,668	$1,668	$1,004	$136,668	$137,672
Commercial real estate	-	4,914	4,914	2,883	447,714	450,597
Land	-	220	220	763	14,574	15,337
Multi-family	-	822	822	1,644	61,436	63,080
Real estate construction	-	618	618	-	39,584	39,584
Consumer	69	1,740	1,809	1,428	103,678	105,106
Unallocated	-	715	715	-	-	-
Total	$69	$10,697	$10,766	$7,722	$803,654	$811,376

Non-accrual loans: Loans are reviewed regularly and it is the Company's general policy that a loan is past due when it is 30 to 89 days delinquent. In general, when a loan is 90 days delinquent or when collection of principal or interest appears doubtful, it is placed on non-accrual status, at which time the accrual of interest ceases and a reserve for unrecoverable accrued interest is established and charged against operations. As a general practice, payments received on non-accrual loans are applied to reduce the outstanding principal balance on a cost recovery method. Also, as a general practice, a loan is not removed from non-accrual status until all delinquent principal, interest and late fees have been brought current and the borrower has demonstrated a history of performance based upon the contractual terms of the note. A history of repayment performance generally would be a minimum of six months. Interest income foregone on non-accrual loans was $75,000 and $78,000 during the nine months ended December 31, 2018 and 2017, respectively.

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

December 31, 2018	30-89 Days Past Due	90 Days and Greater Past Due	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans Receivable
Commercial business	$ -	$ -	$ 268	$ 268	$ 154,092	$ 154,360
Commercial real estate	9	-	1,112	1,121	467,240	468,361
Land	-	-	-	-	18,506	18,506
Multi-family	-	-	-	-	54,930	54,930
Real estate construction	-	-	-	-	76,518	76,518
Consumer	462	4	228	694	95,267	95,961
Total	$ 471	$ 4	$ 1,608	$ 2,083	$ 866,553	$ 868,636

March 31, 2018