

RIVERVIEW BANCORP INC
Form 10-K
May 28, 2010
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended March 31, 2010 OR

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

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 98660
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (360) 693-6650

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, Par Value \$.01 per share | Nasdaq Stock Market LLC |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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 No ___

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and disclosure will not be contained, to the best of the registrant's knowledge, in any definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing sales price of the registrant's Common Stock as quoted on the Nasdaq Global Select Market System under the symbol "RVSB" on September 30, 2009 was \$40,417,960 (10,923,773 shares at \$3.70 per share). As of May 25, 2010, there were issued and outstanding 10,923,773 shares of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's Definitive Proxy Statement for the 2010 Annual Meeting of Shareholders (Part III).

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PART I

Item 1. Business

General

Riverview Bancorp, Inc. (the "Company" or "Riverview"), a Washington corporation, is the savings and loan holding company of Riverview Community Bank (the "Bank"). At March 31, 2010, the Company had total assets of \$838.0 million, total deposit accounts of \$688.0 million and shareholders' equity of \$83.9 million. The Company's executive offices are located at 900 Washington Street, Vancouver Washington. All references to the Company herein include the Bank where applicable.

Substantially all of the Company's business is conducted through the Bank which is regulated by the Office of Thrift Supervision ("OTS"), its primary regulator, and by the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. The Bank's deposits are insured by the FDIC up to applicable legal limits under the Deposit Insurance Fund ("DIF"). The Bank has been a member of the Federal Home Loan Bank ("FHLB") of Seattle since 1937.

As a progressive, community-oriented financial services company, the Company emphasizes local, personal service to residents of its primary market area. The Company considers Clark, Cowlitz, Klickitat and Skamania counties of Washington and Multnomah, Clackamas and Marion counties of Oregon as its primary market area. The Company is engaged predominantly in the business of attracting deposits from the general public and using such funds in its primary market area to originate commercial, commercial real estate, multi-family real estate, real estate construction, residential real estate and other consumer loans. Commercial, commercial real estate and real estate construction loans have increased to 87.6% of the loan portfolio at March 31, 2010 increasing the risk profile of the total loan portfolio. The Company's recent strategy is to control balance sheet growth in order to improve its regulatory capital ratios, including the targeted reduction of residential construction related loans. Speculative construction loans represented \$30.6 million, or 86.4% of the residential construction portfolio at March 31, 2010. These loan balances decreased 47.0% from a year ago. Land acquisition and development loans were \$74.8 million at March 31, 2010 compared to \$91.9 million a year ago, which represents a decline of 18.6%.

The Company's goal is to deliver returns to shareholders by managing problem assets, increasing higher-yielding assets (in particular, commercial real estate and commercial loans), increasing core deposit balances, reducing expenses, hiring experienced employees with a commercial lending focus and exploring opportunistic acquisitions. The Company's strategic plan includes targeting the commercial banking customer base in its primary market area, specifically small and medium size businesses, professionals and wealth building individuals. In pursuit of these goals, the Company manages growth while maintaining a significant amount of commercial and commercial real estate loans in its loan portfolio. Significant portions of these new loan originations carry adjustable rates, higher yields or shorter terms and higher credit risk than traditional fixed-rate mortgages. A related goal is to increase the proportion of personal and business checking account deposits used to fund new loan production. At March 31, 2010, checking accounts totaled \$154.6 million, or 22.5% of our total deposit mix. The strategic plan also stresses increased emphasis on non-interest income, including increased fees for asset management and deposit service charges. The strategic plan is designed to enhance earnings, reduce interest rate risk and provide a more complete range of financial services to customers and the local communities the Company serves. The Company is well positioned to attract new customers and to increase its market share with seventeen branches, including ten in Clark County, two in the Portland metropolitan area and three lending centers.

The Company continuously reviews new products and services to provide its customers more financial options. All new technology and services are generally reviewed for business development and cost saving purposes. Processing

our own checks and check imaging has supported the Bank's increased service to customers and at the same time has increased efficiency. The Bank has implemented remote check capture at all of its branches and is in the process of implementing remote capture of checks on site for selected Bank customers. The Bank has formed a cash management team with an emphasis on improving the Bank's cash management product line for its 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 is in the process of upgrading its online banking product, which will allow its customers greater flexibility and convenience in conducting their online banking. The Company's online service has also enhanced the delivery of cash management services to commercial customers. During fiscal 2010, the Company enrolled in an Internet deposit listing service. Under this listing service, the Company may post time deposit rates on an internet site where institutional investors have the

ability to deposit funds with the Company. In fiscal 2009, the Company began offering Certificate of Deposit Account Registry Service (CDARS™) deposits to its customers. Through the CDARS program, customers can access FDIC insurance up to \$50 million. The Company also implemented Check 21 during fiscal 2009, which allows the Company to process checks faster and more efficiently. In fiscal 2009, the Company began operating as a merchant bankcard “agent bank” facilitating credit and debit card transactions for business customers through an outside merchant bankcard processor. This allows the Company to underwrite and approve bankcard applications and retain interchange income that, under its previous status as a “referral bank” was earned by a third party. During fiscal 2010, the Company began participating in the MoneyPass Network, which allows our customers access to over 16,000 ATMs across the country free of charge.

Special Note Regarding Forward-Looking Statements

“Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995: This Form 10-K contains forward-looking statements that are subject to risks and uncertainties, including, but not limited to: the Company’s ability to raise common capital, the amount of capital it intends to raise and its intended use of that capital. The credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in the Company’s allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets; changes in general economic conditions, either nationally or in the Company’s market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, the Company’s net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in the Company’s market areas; secondary market conditions for loans and the Company’s ability to sell loans in the secondary market; results of examinations of us by the Office of Thrift Supervision or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase the Company’s reserve for loan losses, write-down assets, change Riverview Community Bank’s regulatory capital position or affect the Company’s ability to borrow funds or maintain or increase deposits, which could adversely affect its liquidity and earnings; the Company’s compliance with regulatory enforcement actions and the possibility that our noncompliance could result in the imposition of additional enforcement actions and additional requirements or restrictions on our operations; legislative or regulatory changes that adversely affect the Company’s business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules; the Company’s ability to attract and retain deposits; further increases in premiums for deposit insurance; the Company’s ability to control operating costs and expenses; the use of estimates in determining fair value of certain of the Company’s assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risks associated with the loans on the Company’s balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect the Company’s workforce and potential associated charges; computer systems on which the Company depends could fail or experience a security breach; the Company’s ability to retain key members of its senior management team; costs and effects of litigation, including settlements and judgments; the Company’s ability to implement its business strategies; the Company’s ability to successfully integrate any assets, liabilities, customers, systems, and management personnel it may in the future acquire into its operations and the Company’s ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; the Company’s ability to pay dividends on its common stock and interest or principal payments on its junior subordinated debentures; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; and other economic, competitive, governmental, regulatory, and technological factors affecting the Company’s operations, pricing, products and services and the other risks detailed in Item 1A, “Risk Factors” of this Form 10-K.

The Company cautions readers not to place undue reliance on any forward-looking statements. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company. The Company does not undertake to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Market Area

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

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

Weak economic conditions and ongoing strains in the financial and housing markets which accelerated throughout 2008 and generally continued into 2010 presenting an unusually challenging environment for banks. This has resulted in an increase in loan delinquencies and foreclosure rates, primarily in our residential construction and land development loan portfolios. Foreclosures and delinquencies are also being driven by investor speculation in many states, while job losses and depressed economic conditions have resulted in the higher levels of delinquent loans. The continued economic downturn, and more specifically the slowdown in residential real estate sales, has resulted in further uncertainty in the financial markets. This has been particularly evident in the Company’s need to provide for credit losses during these periods at significantly higher levels than its historical experience and has also affected its net interest income and other operating revenue and expenses. During the quarter-ended March 31, 2010, unemployment in Clark County increased during the quarter ended March 31, 2010, unemployment in Portland, Oregon decreased during this same time period. In addition, several other indicators, including home values and housing inventory levels have shown improvements during the quarter ended March 31, 2010. According to the Washington State Employment Security Department, unemployment in Clark County increased to 14.6% in March 2010 compared to 13.7% at December 2009, 12.7% in September 2009 and 12.6% in June 2009. According to the Oregon Employment Department, unemployment in Portland decreased to 10.1% in March 2010 compared to 10.4% in December 2009, 11.3% in September 2009 and 11.6% in June 2009. Home values at March 31, 2010 in the Company’s market area remained lower than home values in 2009 and 2008, due in large part to an increase in volume of foreclosures and short sales. However, as noted above, home values have begun to stabilize in the past quarter after decreasing during the past fiscal year. According to the Regional Multiple Listing Services (RMLS), inventory levels in Portland, Oregon have fallen to 7.8 months at March 2010, compared to 12.0 months at March 2009. Inventory levels in Clark County have fallen to 7.7 months at March 2010, compared to 11.7 months at March 2009. Closed home sales in Clark County increased 30.9% in March 2010 compared to March 2009. Closed home sales in Portland increased 51.9% during the same time period. Commercial real estate leasing activity in the Portland/Vancouver area has performed better than the residential real estate market, but it is generally affected by a slow economy later than other indicators. Accordingly to Norris Beggs Simpson, commercial vacancy rates in Clark County and Portland Oregon were approximately 18% and 22%, respectively as of March 31, 2010. During the past 24 months, the Company has experienced a decline in the values of real estate collateral underlying its loans, including certain of its construction real estate and land acquisition and development loans, has experienced increased loan delinquencies and defaults, and believes there are indications of potential further increased loan delinquencies and defaults. In addition, competition among financial institutions for deposits has also continued to increase, making it more expensive to attract core deposits.

Lending Activities

General. At March 31, 2010, the Company's net loans receivable totaled \$712.8 million, or 85.1% of total assets at that date. The principal lending activity of the Company is the origination of loans collateralized by commercial properties and commercial business loans. A substantial portion of the Company's loan portfolio is secured by real estate, either as primary or secondary collateral, located in its primary market area.

Loan Portfolio Analysis. The following table sets forth the composition of the Company's loan portfolio by type of loan at the dates indicated.

| | 2010 | | 2009 | | At March 31, 2008 | | 2007 | | 2006 | |
|--|------------|---------|------------|---------|----------------------|---------|------------|---------|------------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| (Dollars in thousands) | | | | | | | | | | |
| Commercial and construction: | | | | | | | | | | |
| Commercial business | \$ 108,368 | 14.76% | \$ 127,150 | 15.87% | \$ 109,585 | 14.28% | \$ 91,174 | 13.18% | \$ 90,083 | 14.29% |
| Other real estate mortgage | 459,178 | 62.52 | 447,652 | 55.88 | 429,422 | 55.97 | 360,930 | 52.19 | 329,631 | 52.31 |
| Real estate construction | 75,456 | 10.27 | 139,476 | 17.41 | 148,631 | 19.37 | 166,073 | 24.01 | 137,598 | 21.83 |
| T o t a l commercial and construction | 643,002 | 87.55 | 714,278 | 89.16 | 687,638 | 89.62 | 618,177 | 89.38 | 557,312 | 88.43 |
| Consumer: | | | | | | | | | | |
| Real estate one-to-four family | 88,861 | 12.10 | 83,762 | 10.46 | 75,922 | 9.90 | 69,808 | 10.10 | 64,026 | 10.16 |
| Other installment | 2,616 | 0.35 | 3,051 | 0.38 | 3,665 | 0.48 | 3,619 | 0.52 | 8,899 | 1.41 |
| Total consumer loans | 91,477 | 12.45 | 86,813 | 10.84 | 79,587 | 10.38 | 73,427 | 10.62 | 72,925 | 11.57 |
| Total loans | 734,479 | 100.00% | 801,091 | 100.00% | 767,225 | 100.00% | 691,604 | 100.00% | 630,237 | 100.00% |
| Less: | | | | | | | | | | |
| Allowance for loan losses | 21,642 | | 16,974 | | 10,687 | | 8,653 | | 7,221 | |
| Total loans receivable, net | \$ 712,837 | | \$ 784,117 | | \$ 756,538 | | \$ 682,951 | | \$ 623,016 | |

Loan Portfolio 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.

COMPOSITION OF COMMERCIAL AND CONSTRUCTION LOAN TYPES BASED ON LOAN PURPOSE

| March 31, 2010 | Commercial | Other Real Estate Mortgage (in thousands) | Real Estate Construction | Commercial & Construction Total |
|-------------------------------------|------------|---|--------------------------------|--|
| Commercial business | \$ 108,368 | \$ - | \$ - | \$ 108,368 |
| Commercial construction | - | - | 40,017 | 40,017 |
| Office buildings | - | 90,000 | - | 90,000 |
| Warehouse/industrial | - | 46,731 | - | 46,731 |
| Retail/shopping centers/strip malls | - | 80,982 | - | 80,982 |
| Assisted living facilities | - | 39,604 | - | 39,604 |
| Single purpose facilities | - | 93,866 | - | 93,866 |
| Land | - | 74,779 | - | 74,779 |
| Multi-family | - | 33,216 | - | 33,216 |
| One-to-four family construction | - | - | 35,439 | 35,439 |
| Total | \$ 108,368 | \$ 459,178 | \$ 75,456 | \$ 643,002 |

| March 31, 2009 | Commercial | Other Real Estate Mortgage (in thousands) | Real Estate Construction | Commercial & Construction Total |
|-------------------------------------|------------|--|--------------------------------|--|
| Commercial business | \$ 127,150 | \$ - | \$ - | \$ 127,150 |
| Commercial construction | - | - | 65,459 | 65,459 |
| Office buildings | - | 90,621 | - | 90,621 |
| Warehouse/industrial | - | 40,214 | - | 40,214 |
| Retail/shopping centers/strip malls | - | 81,233 | - | 81,233 |
| Assisted living facilities | - | 26,743 | - | 26,743 |
| Single purpose facilities | - | 88,574 | - | 88,574 |
| Land | - | 91,873 | - | 91,873 |
| Multi-family | - | 28,394 | - | 28,394 |
| One-to-four family construction | - | - | 74,017 | 74,017 |
| Total | \$ 127,150 | \$ 447,652 | \$ 139,476 | \$ 714,278 |

Commercial Lending. Commercial business loans are typically secured by business equipment, accounts receivable, inventory or other property. The Company's commercial business loans may be structured as term loans or as lines of

credit. Commercial term loans are generally made to finance the purchase of assets and usually have maturities of five years or less. Commercial lines of credit are typically made for the purpose of providing working capital and usually have a term of one year or less. Lines of credit are made at variable rates of interest equal to a negotiated margin above an index rate and term loans are at either a variable or fixed rate. The Company also generally obtains personal guarantees from financially capable parties based on a review of personal financial statements.

Commercial lending involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use, among other things. Accordingly, the repayment of commercial business loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower.

Other Real Estate Mortgage Lending. At March 31, 2010, the other real estate lending portfolio totaled \$459.2 million, or 62.52% of total loans. The Company originates other real estate loans including office buildings, warehouse/industrial, retail

and assisted living facilities (collectively “commercial real estate loans”); as well as land and multi-family loans primarily located in our market area. At March 31, 2010, owner occupied properties accounted for 31% of the Company’s commercial real estate portfolio and non-owner occupied properties accounted for 69%.

Commercial real estate loans typically have higher loan balances, are more difficult to evaluate and monitor, and involve a higher degree of risk than one-to-four family residential loans. Often payments on loans secured by commercial properties are dependent on the successful operation and management of the property securing the loan or business conducted on the property securing the loan; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. The Company seeks to minimize these risks by generally limiting the maximum loan-to-value ratio to 80% and strictly scrutinizing the financial condition of the borrower, the quality of the collateral and the management of the property securing the loan. The Company generally imposes a minimum debt service coverage ratio of 1.20 for loans secured by income producing properties. The Company actively pursues commercial real estate loans; however, new loan originations were lower in fiscal year 2010 reflecting the recessionary market conditions. At March 31, 2010, the Company had three commercial real estate loans totaling \$3.0 million on non-accrual status. For more information concerning risks related to commercial real estate loans, see Item 1A. “Risk Factors – Risks Related to our Business – Our emphasis on commercial real estate lending may expose us to increased lending risks.”

Land acquisition and development loans are included in the other real estate mortgage portfolio balance, and represent loans made to developers for the purpose of acquiring raw land and/or for the subsequent development and sale of residential lots. Such loans typically finance land purchase and infrastructure development of properties (i.e. roads, utilities, etc.) with the aim of making improved lots ready for subsequent sale to consumers or builders for ultimate construction of residential units. The primary source of repayment is generally the cash flow from developer sale of lots or improved parcels of land, secondary sources and personal guarantees, which may provide an additional measure of security for such loans. Strong demand for housing has led to loan growth in this category in recent years. However, the recent downturn in real estate has slowed lot and home sales within the Company’s markets. This has impacted certain developers by lengthening the marketing period of their projects and negatively affecting borrower’s liquidity and collateral values. The Company has focused on reducing these loans during the past fiscal year and plans to continue to reduce these portfolios. Additionally, the Company has ceased the origination of new land acquisition and development loans. At March 31, 2010, land acquisition and development loans totaled \$74.8 million, or 10.18% of total loans compared to \$91.9 million, or 11.47% of total loans at March 31, 2009. The largest loan had an outstanding balance at March 31, 2010 of \$6.2 million and was performing according to its original repayment terms. With the exception of four loans totaling \$8.1 million, all of the land acquisition and development loans were secured by properties located in Washington and Oregon. At March 31, 2010, the Company had fourteen land acquisition and development loans totaling \$12.1 million on non-accrual status.

Both fixed and adjustable-rate loans are offered on other real estate loans. Adjustable-rate other real estate loans are originated with rates that generally adjust after an initial period ranging from one to five years. Adjustable-rate loans are generally priced utilizing the FHLB of Seattle's fixed advance rate for an equivalent period plus a margin ranging from 2.5% to 3.5%, with principal and interest payments fully amortizing over terms up to 30 years. These loans generally have a prepayment penalty.

Real Estate Construction. The real estate construction loan portfolio, including loan commitments, totaled \$88.7 million at March 31, 2010. The Company originates three types of residential construction loans: (i) speculative construction loans, (ii) custom/presold construction loans and (iii) construction/permanent loans. The Company also originates construction loans for the development of business properties and multi-family dwellings. All of the Company’s real estate construction loans were made on properties located in Washington and Oregon.

The composition of the Company’s construction loan portfolio including loan commitments at March 31, 2010 was as follows:

| | 2010 | | At March 31, | | 2009 | |
|--------------------------------------|------------------------|---------|---------------|---------|---------------|---------|
| | Amount (1) | Percent | Amount (1) | Percent | Amount (1) | Percent |
| | (Dollars in thousands) | | | | | |
| Speculative construction | \$ 31,209 | 35.20% | \$ 60,494 | 37.45% | | |
| Commercial/multi-family construction | 47,975 | 54.11 | 77,842 | 48.19 | | |
| Custom/presold construction | 1,531 | 1.73 | 11,337 | 7.02 | | |
| Construction/permanent | 7,941 | 8.96 | 11,864 | 7.34 | | |
| Total | \$ 88,656 | 100.00% | \$ 161,537 | 100.00% | | |

(1) Includes loans in process of \$13.2 million and \$22.1 million at March 31, 2010 and 2009, respectively.

The Company has remained diligent in managing its construction loan portfolio and has continued to be successful at reducing its overall exposure in the residential construction and commercial real estate construction loans. At March 31, 2010, the balance of the Company's construction loan portfolio, including loan commitments, was \$88.7 million compared to \$161.5 million at March 31, 2009. The \$72.9 million reduction was a result of loan repayments, charge-offs, and foreclosures reflecting the Company's efforts to reduce its exposure to these types of loans. The Company plans to continue its focus on aggressively managing its construction loan portfolio in fiscal year 2011. Additionally, the Company has significantly slowed the origination of new construction loans. In general, the Company is only originating new construction loans to facilitate the sale of existing loans or real estate owned properties; or on a very limited basis to selected borrowers.

Speculative construction loans are made to home builders and are termed "speculative" because the home builder does not have, at the time of loan origination, a signed contract with a home buyer who has a commitment for permanent financing with either the Company or another lender for the finished home. The home buyer may be identified either during or after the construction period, with the risk that the builder will have to debt service the speculative construction loan and finance real estate taxes and other carrying costs of the completed home for a significant time after the completion of construction until a home buyer is identified. Included in speculative construction loans are loans to finance the construction of townhouses and condominiums. At March 31, 2010, loans for the construction of townhouses and condominiums totaled \$8.9 million and \$18.1 million, respectively. At March 31, 2010, the Company had eleven borrowers with aggregate outstanding loan balances of more than \$1.0 million, which totaled \$27.5 million (the largest of which was \$5.6 million) and were secured by properties located in the Company's market area. At March 31, 2010, six speculative construction loans totaling \$11.3 million were on non-accrual status.

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

| | Northwest Oregon | Other Oregon | Southwest Washington (In thousands) | Other Washington | Other | Total |
|-------------------------------------|---------------------|-----------------|---|---------------------|----------|------------|
| March 31, 2010 | | | | | | |
| Land development | \$ 6,911 | \$ 6,301 | \$ 51,899 | \$ 1,649 | \$ 8,019 | \$ 74,779 |
| Speculative construction | 5,827 | 10,807 | 12,418 | 1,564 | - | 30,616 |
| Total land and spec construction | \$ 12,738 | \$ 17,108 | \$ 64,317 | \$ 3,213 | \$ 8,019 | \$ 105,395 |

Unlike speculative construction loans, presold construction loans are made for homes that have buyers. Presold construction loans are made to homebuilders who, at the time of construction, have a signed contract with a home buyer who has a commitment for permanent financing for the finished home from the Company or another lender. Custom construction loans are made to the homeowner. Custom/presold construction loans are generally originated for a term of 12 months. At March 31, 2010, the largest custom construction loan had outstanding balance of \$312,000 and was performing according to the original repayment terms. The largest presold construction loan had an outstanding balance of \$266,000 and was on non-accrual status. At March 31, 2010, the Company had three presold construction loans on non-accrual status totaling \$527,000. There were no custom construction loans on non-accrual status at March 31, 2010.

Construction/permanent loans are originated to the homeowner rather than the homebuilder along with a commitment by the Company to originate a permanent loan to the homeowner to repay the construction loan at the completion of construction. The construction phase of a construction/permanent loan generally lasts six to nine months. At the completion of construction, the Company may either originate a fixed rate mortgage loan or an adjustable rate mortgage ("ARM") loan or use its mortgage brokerage capabilities to obtain permanent financing for the customer with another lender. At completion of construction, the interest rate of the Company-originated fixed rate permanent loan is

set at a market rate and for adjustable rate loans, the interest rates adjust on their first adjustment date. See “—Mortgage Brokerage,” and “—Mortgage Loan Servicing.” At March 31, 2010, the largest outstanding construction/permanent loan had an outstanding balance of \$364,000 and was performing according to its original terms. At March 31, 2010, the Company had no construction/permanent loans on non-accrual status.

The Company provides construction financing for non-residential business properties and multi-family dwellings. At March 31, 2010, such loans totaled \$40.0 million, or 53.0% of total real estate construction loans and 5.4% of total loans. Borrowers may be the business owner/occupier of the building who intends to operate its business from the property upon construction, or non-owner developers. The expected source of repayment of these loans is typically the sale or refinancing of the project upon completion of the construction phase. In certain circumstances, the Company may provide or commit to take-out financing upon construction. Take-out financing is subject to the project meeting specific underwriting guidelines. No

assurance can be given that such take-out financing will be available upon project completion. These loans are secured by office buildings, retail rental space, mini storage facilities, assisted living facilities and multi-family dwellings located in the Company's market area. At March 31, 2010, the largest commercial construction loan had a balance of \$7.2 million and was delinquent 71 days and accruing interest. At March 31, 2010, the Company had one commercial construction loan on non-accrual status totaling \$31,000.

Construction lending affords the Company the opportunity to achieve higher interest rates and fees with shorter terms to maturity than the rates and fees generated by its single-family permanent mortgage lending. Construction lending, however, generally involves a higher degree of risk than single-family permanent mortgage lending because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost of the project, as well as the time needed to sell the property at completion. The nature of these loans is such that they are generally more difficult to evaluate and monitor. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property or refinance the indebtedness, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. For additional information concerning the risks related to construction lending, see Item 1A. "Risk Factors – Risks related to our business – Our real estate construction and land acquisition loans are based upon estimates of costs and the value of the completed project."

The Company has originated construction and land acquisition and development loans where a component of the cost of the project was the interest required to service the debt during the construction period of the loan, sometimes known as interest reserves. The Company allows disbursements of this interest component as long as the project is progressing as originally projected and if there has been no deterioration in the financial standing of the borrower or the underlying project. If the Company makes a determination that there is such deterioration, or if the loan becomes nonperforming, the Company halts any disbursement of those funds identified for use in paying interest. In some cases, additional interest reserves may be taken by use of deposited funds or through credit lines secured by separate and additional collateral.

Consumer Lending. Consumer loans totaled \$91.5 million at March 31, 2010. Consumer lending is comprised of one-to-four family mortgage loans, home equity lines of credit, land loans to consumers for the future construction of one-to-four family homes, totaling \$88.9 million, and other secured and unsecured consumer loans, totaling \$2.6 million at March 31, 2010.

One-to-four family residences located in the Company's primary market area secure the majority of the residential loans. Underwriting standards require that one-to-four family portfolio loans generally be owner occupied and that loan amounts not exceed 80% (95% with private mortgage insurance) of the lesser of current appraised value or cost of the underlying collateral. Terms typically range from 15 to 30 years. The Company also offers balloon mortgage loans with terms of either five or seven years and originates both fixed rate mortgages and ARMs with repricing based on one-year constant maturity U.S. Treasury index or other index. At March 31, 2010, the Company had ten one-to-four family loans totaling \$2.7 million on non-accrual status. All of these loans were located in Oregon and Washington.

The Company originates a variety of installment loans, including loans for debt consolidation and other purposes, automobile loans, boat loans and savings account loans. Consumer loans generally entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as mobile homes, automobiles, boats and recreational vehicles. At March 31, 2010, the

Company had no installment loans on non-accrual status.

Loan Maturity. The following table sets forth certain information at March 31, 2010 regarding the dollar amount of loans maturing in the Company's portfolio based on their contractual terms to maturity, but does not include potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported as due in one year or less. Loan balances are reported net of deferred fees.

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| | Within 1 Year | 1 – 3 Years | After 3 – 5 Years | After 5 – 10 Years | Beyond 10 Years | Total |
|------------------------------------|---------------------|----------------|-------------------------|--------------------------|-----------------------|------------|
| Commercial and construction: | (In thousands) | | | | | |
| Commercial business | \$ 60,009 | \$ 16,628 | \$ 15,626 | \$ 16,105 | \$ - | \$ 108,368 |
| Other real estate mortgage | 101,936 | 41,643 | 55,914 | 242,838 | 16,847 | 459,178 |
| Real estate construction | 49,446 | 8,521 | 664 | 16,825 | - | 75,456 |
| Total commercial & construction | 211,391 | 66,792 | 72,204 | 275,768 | 16,847 | 643,002 |
| Consumer: | | | | | | |
| Real estate one-to-four family | 5,635 | 10,668 | 5,319 | 12,324 | 54,915 | 88,861 |
| Other installment | 285 | 651 | 755 | 792 | 133 | 2,616 |
| Total consumer | 5,920 | 11,319 | 6,074 | 13,116 | 55,048 | 91,477 |
| Total loans | \$ 217,311 | \$ 78,111 | \$ 78,278 | \$ 288,884 | \$ 71,895 | \$ 734,479 |

The following table sets forth the dollar amount of all loans due after one year from March 31, 2010, which have fixed interest rates and have adjustable interest rates.

| | Fixed Rate | Adjustable Rate | Total |
|--------------------------------------|---------------|--------------------|------------|
| (In thousands) | | | |
| Commercial and Construction: | | | |
| Commercial business | 24,171 | \$ 24,188 | \$ 48,359 |
| Other real estate mortgage | 61,567 | 295,675 | 357,242 |
| Real estate construction | 11,658 | 14,352 | 26,010 |
| Total commercial and construction | 97,396 | 334,215 | 431,611 |
| Consumer: | | | |
| Real estate one-to-four family | 37,781 | 45,445 | 83,226 |
| Other installment | 1,725 | 606 | 2,331 |
| Total consumer | 39,506 | 46,051 | 85,557 |
| Total loans | \$ 136,902 | \$ 380,266 | \$ 517,168 |

Loan Solicitation and Processing. The Company's lending activities are subject to the written, non-discriminatory, underwriting standards and loan origination procedures established by the Bank's Board of Directors ("Board") and management. The customary sources of loan originations are realtors, walk-in customers, referrals and existing customers. The Company also uses commissioned loan brokers and print advertising to market its products and services.

The Company's loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan, the adequacy of the value of the property that will secure the loan, if any, and in the case of commercial and multi-family real estate loans, the cash flow of the project and the quality of management involved with the project. The Company's lending policy requires borrowers to obtain certain types of insurance to protect the Company's interest

in any collateral securing the loan. Loans are approved at various levels of management, depending upon the amount of the loan.

Loan Commitments. The Company issues commitments to originate commercial loans, other real estate mortgage loans, construction loans, residential mortgage loans and other installment loans conditioned upon the occurrence of certain events. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. Commitments to originate loans 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. At March 31, 2010, the Company had outstanding commitments to originate loans of \$12.4 million, compared to \$7.2 million at March 31, 2009.

Mortgage Brokerage. In addition to originating mortgage loans for retention in its portfolio, the Company employs nine commissioned brokers who originate mortgage loans (including construction loans) for various mortgage companies, as well as for the Company. The loans brokered to mortgage companies are closed in the name of, and funded by the purchasing mortgage company and are not originated as an asset of the Company. In return, the Company receives a fee ranging from 1.0% to 1.5% of the loan amount that it shares with the commissioned broker. Loans brokered to the Company are closed on the Company's books and the commissioned broker receives a fee of approximately 0.55% of the loan amount. During the year ended March 31, 2010, brokered loans totaled \$90.5 million (including \$19.6 million brokered to the Company), compared to \$124.5 million of brokered loan in fiscal year 2009. Gross fees of \$586,000 (excluding the portion of fees shared with the commissioned brokers) were recognized for the year ended March 31, 2010. The interest rate environment has a strong influence on the loan volume and amount of fees generated from the mortgage broker activity. In general, during

periods of rising interest rates the volume of loans and the amount of loan fees generally decrease as a result of slower mortgage loan demand. Conversely, during periods of falling interest rates, the volume of loans and the amount of loan fees generally increase as a result of the increased mortgage loan demand. Due to the continued slowdown in the real estate markets during fiscal year 2010, the loan volume and amount of fees generated decreased compared to previous years.

Mortgage Loan Servicing. The Company is a qualified servicer for the Federal Home Loan Mortgage Corporation (“FHLMC”). The Company generally sells fixed-rate residential one-to-four mortgage loans that it originates with maturities of 15 years or more and balloon mortgages to the FHLMC as part of its asset liability strategy. Mortgage loans are sold to FHLMC on a non-recourse basis whereby foreclosure losses are generally the responsibility of FHLMC and not the Company. The Company's general policy is to close its residential loans on the FHLMC modified loan documents to facilitate future sales to FHLMC. Upon sale, the Company continues to collect payments on the loans, to supervise foreclosure proceedings, and to otherwise service the loans. At March 31, 2010, total loans serviced for others were \$129.5 million, of which \$115.4 million were serviced for FHLMC.

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

Nonperforming assets were \$49.3 million or 5.89% of total assets at March 31, 2010 compared with \$41.7 million or 4.57% of total assets at March 31, 2009. The Company also had net charge offs totaling \$11.2 million during fiscal 2010 compared to \$9.9 million during fiscal 2009. Credit quality challenges continue to be centered in residential land acquisition and development loans and speculative construction loans. Slower sales and excess housing inventory were the primary cause of the increase in delinquencies and foreclosures of such loans. While the Company has not engaged in any sub-prime lending programs the effect on home values, housing markets and construction lending from problems associated with sub-prime and other non-traditional mortgage lending programs has we believe contributed to the increased levels of builder and developer delinquencies. Continuation of recent economic conditions could result in additional increases in nonperforming assets, further increases in the provision for loan losses and charge-offs in the future.

As noted above, the problem loans identified by the Company have continued to remain concentrated in speculative construction loans and land acquisition and development loans. During the current fiscal year, management has focused on managing these portfolios in an attempt to minimize the effects of declining home values and slower home sales, which have contributed to the increase in the allowance for loan losses. At March 31, 2010, the Company's residential construction and land development loan portfolios were \$35.4 million and \$74.8 million, respectively. Substantially all of the loans in these two portfolios are located in the Company's market area. The percentage of nonperforming loans in the residential construction and land development portfolios was 33.3% and 16.2%, respectively. For the year ended March 31, 2010, the charge-off ratio for the residential construction and land development portfolios was 7.76% and 4.60%, respectively.

Nonperforming loans at March 31, 2010 totaled \$36.0 million and consisted of fifty-four loans to thirty-seven borrowers ranging in size from \$19,000 to \$4.4 million. As noted above, land acquisition and development loans and speculative construction loans continue to represent the largest portion of our nonperforming loans, totaling \$23.9 million, or 66.3%, of the total nonperforming loan balance at March 31, 2010. The remaining balance includes seventeen commercial loans to ten borrowers totaling \$6.4 million, three commercial real estate loans to three borrowers totaling \$3.0 million, one commercial construction loan totaling \$31,000 and ten residential real estate loans to ten borrowers totaling \$2.7 million. All of these loans are to borrowers located in Oregon and Washington with the exception of two land acquisition and development loans totaling \$1.6 million. One of these loans totaling

\$1.4 million is to a Washington borrower who has property located in Southern California. The second loan totaling \$255,000 is secured by collateral located in Arizona. Thirty-six of the Company's nonperforming loans, totaling \$33.2 million or 92.1% of total nonperforming loans, were measured for impairment at March 31, 2010. The specific reserve associated with these impaired loans totaled \$6.9 million. These levels of nonperforming loans resulted in elevated loan loss provisions and loan charge-offs for the year ended March 31, 2010.

At March 31, 2010, the largest relationship to one borrower had nonperforming loans totaling \$6.6 million. These loans, which were placed on nonaccrual status in fiscal year 2010, are to a builder/developer of single-family homes/lots primarily in Clark County. Net charge-offs on these properties totaled \$733,000 for fiscal year 2010. The Company believes that it is adequately reserved for these loans.

At March 31, 2010, the largest single nonperforming loan totaled \$4.4 million. This loan was made to a builder/developer of a condominium project in Multnomah County of Portland, Oregon. Net charge-offs for this property totaled \$400,000 for fiscal year 2010. The Company believes that it is adequately reserved for this loan.

The balance of nonperforming assets consisted of \$13.3 million in real estate owned (“REO”) at March 31, 2010. The REO was comprised of single-family homes totaling \$4.2 million, residential building lots totaling \$4.2 million and land development property totaling \$4.9 million. All of the REO properties are located in Oregon and Washington. As a result of the rapidly declining real estate values, the Company had \$4.8 million in write-downs on existing REO properties during fiscal year 2010 and recognized an additional \$902,000 on the sale of properties. Total REO sales were \$15.7 million during fiscal 2010. Maintenance and operating expenses for these properties totaled \$726,000 during fiscal year 2010. The orderly resolution of nonperforming loans and REO properties remains a priority for management. Because of the uncertain real estate market, no assurance can be given as to the timing of ultimate disposition of such assets or that the selling price will be at or above the carrying value. Continued decline in market values in our area could lead to additional valuation adjustments, which would have an adverse effect on our results of operations.

The coverage ratio of allowance for loan losses to nonperforming loans was 60.10% at March 31, 2010 compared to 61.57% at March 31, 2009. This coverage ratio decreased slightly from March 31, 2009 as more of the Company’s nonperforming loans have been reduced to expected recovery values as a result of specific impairment analysis performed on these loans and the increased charge-offs taken on such loans.

The following table sets forth information regarding the Company’s nonperforming assets. At the dates indicated, the Company had no restructured loans within the meaning as defined in accounting standards for accounting by debtors and creditors for troubled debt restructuring.

| | 2010 | 2009 | At March 31, 2008 | 2007 | 2006 |
|---|------------------------|-----------|----------------------|--------|--------|
| | (Dollars in thousands) | | | | |
| Loans accounted for on a non-accrual basis: | | | | | |
| Commercial business | \$ 6,430 | \$ 6,018 | \$ 1,164 | \$ - | \$ - |
| Other real estate mortgage | 15,079 | 7,316 | 3,892 | 226 | 415 |
| Real estate construction | 11,826 | 12,720 | 2,124 | - | - |
| Real estate one-to-four family | 2,676 | 1,329 | 382 | - | - |
| Total | 36,011 | 27,383 | 7,562 | 226 | 415 |
| Accruing loans which are contractually past due 90 days or more | - | 187 | 115 | - | - |
| Total nonperforming loans | 36,011 | 27,570 | 7,677 | 226 | 415 |
| REO | 13,325 | 14,171 | 494 | - | - |
| Total nonperforming assets | \$ 49,336 | \$ 41,741 | \$ 8,171 | \$ 226 | \$ 415 |
| Total nonperforming loans to net loans | 4.90% | 3.44% | 1.00% | 0.03% | 0.07% |
| Total nonperforming loans to total assets | 4.30 | 3.02 | 0.87 | 0.03 | 0.05 |
| Total nonperforming assets to total assets | 5.89 | 4.57 | 0.92 | 0.03 | 0.05 |

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The following table sets forth information regarding the Company's nonperforming assets by loan type and geographical area.

| March 31, 2010 | Northwest Oregon | Other Oregon | Southwest Washington (In thousands) | Other Washington | Other | Total |
|---------------------------------|---------------------|-----------------|---|---------------------|----------|-----------|
| Commercial business | \$ 1,138 | \$ 2,724 | \$ 2,568 | \$ - | \$ - | \$ 6,430 |
| Commercial real estate | 1,846 | - | 1,150 | - | - | 2,996 |
| Land | - | 2,116 | 8,029 | 303 | 1,635 | 12,083 |
| Commercial construction | - | - | - | 31 | - | 31 |
| One-to-four family construction | 4,356 | 4,141 | 1,734 | 1,564 | - | 11,795 |
| Real estate one-to-four family | 1,095 | 310 | 1,271 | - | - | 2,676 |
| Total nonperforming loans | 8,435 | 9,291 | 14,752 | 1,898 | 1,635 | 36,011 |
| REO | 2,741 | 503 | 5,797 | 4,284 | - | 13,325 |
| Total nonperforming assets | \$ 11,176 | \$ 9,794 | \$ 20,549 | \$ 6,182 | \$ 1,635 | \$ 49,336 |

In addition to the nonperforming assets set forth in the table above, at March 31, 2010 and 2009 the Company had other loans of concern totaling \$16.2 million and \$10.1 million, respectively. Other loans of concern at March 31, 2010 consisted of twenty loans to sixteen borrowers. Similar to trends noted above, the increase in other loans of concern is concentrated around land development and speculative construction loans. Included in other loans of concern at March 31, 2010 are two real estate construction loans totaling \$5.7 million (the largest of which was \$4.6 million). The remaining \$10.5 million of loans mainly consisted of commercial and land acquisition and development loans. Other loans of concern consist of loans where the borrowers have cash flow problems, or the collateral securing the respective loans may be inadequate. In either or both of these situations the borrowers may be unable to comply with the present loan repayment terms, and the loans may subsequently be included in the non-accrual category. Management considers the allowance for loan losses to be adequate to cover the probable losses inherent in these and other loans.

At March 31, 2010, loans delinquent more than 30 days were 1.93% of total loans compared to 1.94% at March 31, 2009. At March 31, 2010, the 30 to 89 day delinquency rate in our commercial business loan portfolio was 1.06%. The 30 to 89 day delinquency rate in our commercial real estate ("CRE") portfolio was 0.91%. CRE loans represent the largest portion of our loan portfolio at 47.81% of total loans and the commercial business loans represent 14.75% of total loans.

Asset Classification. The OTS has adopted various regulations regarding problem assets of savings institutions. The regulations require that each insured institution review and classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, OTS examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified as loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. If an asset or portion thereof is classified as loss, the insured institution establishes specific allowances for loan losses for the full amount of the portion of the asset classified as loss. All or a portion of general loan loss allowances established to cover possible losses related to assets classified substandard or doubtful can be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses generally do not qualify as regulatory capital. Assets that do not currently expose the insured institution to sufficient risk to warrant classification as a classified asset but possess weaknesses are designated "special mention" and monitored by the Company.

The aggregate amount of the Company's classified loans, general loss allowances, specific loss allowances and charge-offs were as follows at the dates indicated:

| | At or For the Year Ended March 31, | |
|--------------------------|---------------------------------------|----------|
| | 2010 | 2009 |
| | (In thousands) | |
| Classified loans | \$52,245 | \$37,250 |
| General loss allowances | 13,608 | 12,659 |
| Specific loss allowances | 8,034 | 4,315 |
| Net charge-offs | 11,232 | 9,863 |

All of the loans on non-accrual status as of March 31, 2010 were categorized as classified loans. Classified loans at March 31, 2010 were made up of twelve real estate construction loans totaling \$17.5 million (the largest of which was

\$4.6 million), twenty-six commercial loans totaling \$9.7 million (the largest of these loans totaling \$2.7 million), twenty land acquisition and development loans totaling \$19.2 million, eleven one-to-four family real estate loans totaling \$2.7 million, one multi-family loan totaling \$4,000 and four commercial real estate property totaling \$3.1 million. As discussed in “Market Area” and “-Nonperforming Assets” above, the downturn in general economic conditions, particularly in our local housing markets, was the primary reason for the increased level of classified and other problem loans during fiscal year 2010.

The balance of the classified loans continue to be concentrated in the land acquisition and development and speculative construction categories, which represented 36.8% and 33.5% respectively, of the balance at March 31, 2010. The increase in classified loans reflects the continued economic conditions, which have significantly affected homebuilders and developers.

Allowance for Loan Losses. The Company maintains an allowance for loan losses to provide for probable losses inherent in the loan portfolio. The adequacy of the allowance is evaluated monthly to maintain the allowance at levels sufficient to

provide for inherent losses existing at the balance sheet date. The key components to the evaluation are the Company's internal review function by its Credit Administration, which reviews and monitors the risk and quality of the loan portfolio; as well as the Company's external loan reviews and its loan classification systems. Credit officers are expected to monitor their portfolios and make recommendations to change loan grades whenever changes are warranted. Credit Administration approves any changes to loan grades and monitors loan grades. For additional discussion of the Company's methodology for assessing the appropriate level of the allowance for loan losses see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies."

At March 31, 2010, the Company had an allowance for loan losses of \$21.6 million, or 2.95% of total loans. The allowance for loan losses, including unfunded commitments of \$185,000, was \$21.8 million, or 2.97% of total loans at March 31, 2010. The increase in the balance of the allowance for loan losses at March 31, 2010 reflects the increased levels of delinquent and classified loans, deteriorating economic conditions (particularly related to the real estate market) and a change in loss rates when compared to March 31, 2009. Classified assets were \$52.2 million at March 31, 2010 compared to \$37.3 million at March 31, 2009. The increase was primarily attributable to the current economic conditions affecting borrowers' repayment ability. Nonperforming loans increased \$8.4 million during the year-ended March 31, 2010, and specific reserves for such loans were \$6.9 million. As previously noted in "Nonperforming Assets," the increase in classified and nonperforming loans has continued to be centered in the Company's land acquisition and development loan portfolio and its speculative loans portfolio. The deterioration in the loan portfolio resulted in an increase in the allowance for loan losses, which were partially offset by the \$11.2 million in net charge-offs during fiscal year 2010. All of the loans on non-accrual status as of March 31, 2010 were categorized as classified loans.

Management considers the allowance for loan losses to be adequate to cover probable losses inherent in the loan portfolio based on the assessment of various factors affecting the loan portfolio and the Company believes it has established its existing allowance for loan losses in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles" or "GAAP"). However, a further decline in local economic conditions, results of examinations by the Company's regulators, or other factors could result in a material increase in the allowance for loan losses and may adversely effect the Company's financial condition and results of operations. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses will be adequate or that substantial increases will not be necessary should the quality of any loans deteriorate or should collateral values further decline as a result of the factors discussed elsewhere in this document. The following table sets forth an analysis of the Company's allowance for loan losses for the periods indicated.

| | Year Ended March 31, | | | | |
|---|------------------------|-----------|-----------|----------|----------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | (Dollars in thousands) | | | | |
| Balance at beginning of period | \$ 16,974 | \$ 10,687 | \$ 8,653 | \$ 7,221 | \$ 4,395 |
| Provision for loan losses | 15,900 | 16,150 | 2,900 | 1,425 | 1,500 |
| Recoveries: | | | | | |
| Commercial and construction | | | | | |
| Commercial business | 5 | 25 | 10 | 165 | 87 |
| Other real estate mortgage | 77 | - | 12 | - | - |
| Total commercial and construction | 82 | 25 | 22 | 165 | 87 |
| Consumer | | | | | |
| Real estate one-to-four family | 7 | - | - | - | 48 |
| Other installment | - | 2 | 17 | 28 | 14 |
| Total consumer | 7 | 2 | 17 | 28 | 62 |
| Total recoveries | 89 | 27 | 39 | 193 | 149 |
| Charge-offs: | | | | | |
| Commercial and construction | | | | | |
| Commercial business | 2,466 | 1,311 | 794 | 172 | 577 |
| Other real estate mortgage | 3,836 | 5,913 | 42 | - | - |
| Real estate construction | 3,737 | 2,073 | - | - | - |
| Total commercial and construction | 10,039 | 9,297 | 836 | 172 | 577 |
| Consumer | | | | | |
| Real estate one-to-four family | 1,232 | 361 | 48 | - | 41 |
| Other installment | 50 | 232 | 21 | 14 | 93 |
| Total consumer | 1,282 | 593 | 69 | 14 | 134 |
| Total charge-offs | 11,321 | 9,890 | 905 | 186 | 711 |
| Net charge-offs (recoveries) | 11,232 | 9,863 | 866 | (7) | 562 |
| Allowance acquired from American Pacific Bank | - | - | - | - | 1,888 |
| Balance at end of period | \$ 21,642 | \$ 16,974 | \$ 10,687 | \$ 8,653 | \$ 7,221 |
| Ratio of allowance to total loans outstanding at end of period | 2.95% | 2.12% | 1.39% | 1.25% | 1.15% |
| Ratio of net charge-offs to average net loans outstanding during period | 1.48 | 1.24 | 0.12 | - | 0.10 |
| Ratio of allowance to total nonperforming loans | 60.10 | 61.57 | 139.21 | 3,828.76 | 1,740.00 |

The following table sets forth the breakdown of the allowance for loan losses by loan category and is based on applying a specific loan loss factor to the outstanding balances of related loan category as of the date of the allocation for the periods indicated.

| | 2010 | | 2009 | | At March 31, 2008 | | 2007 | | 2006 | |
|--------------------------------|-----------|---|-----------|---|----------------------|---|----------|---|----------|---|
| | Amount | Loan Category as a Percent of Total Loans | Amount | Loan Category as a Percent of Total Loans | Amount | Loan Category as a Percent of Total Loans | Amount | Loan Category as a Percent of Total Loans | Amount | Loan Category as a Percent of Total Loans |
| (Dollars in thousands) | | | | | | | | | | |
| Commercial and construction: | | | | | | | | | | |
| Commercial business | \$ 3,181 | 14.76% | \$ 2,668 | 15.87% | \$ 1,339 | 14.28% | \$ 1,553 | 13.18% | \$ 1,549 | 14.28% |
| Other real estate mortgage | 10,028 | 62.52 | 6,475 | 55.88 | 5,415 | 55.97 | 4,066 | 52.19 | 3,553 | 52.19 |
| Real estate construction | 5,137 | 10.27 | 4,592 | 17.41 | 2,092 | 19.37 | 2,060 | 24.01 | 1,365 | 21.05 |
| Consumer: | | | | | | | | | | |
| Real estate one-to-four family | 1,522 | 12.10 | 1,148 | 10.46 | 669 | 9.90 | 333 | 10.10 | 292 | 10.10 |
| Other installment | 52 | 0.35 | 61 | 0.38 | 64 | 0.48 | 63 | 0.52 | 168 | 1.68 |
| Unallocated | 1,722 | - | 2,030 | - | 1,108 | - | 578 | - | 294 | - |
| Total allowance for loan loss | \$ 21,642 | 100.00% | \$ 16,974 | 100.00% | \$ 10,687 | 100.00% | \$ 8,653 | 100.00% | \$ 7,221 | 100.00% |

Investment Activities

The Board sets the investment policy of the Company. The Company's investment objectives are: to provide and maintain liquidity within regulatory guidelines; to maintain a balance of high quality, diversified investments to minimize risk; to provide collateral for pledging requirements; to serve as a balance to earnings; and to optimize returns. The policy permits investment in various types of liquid assets permissible under OTS regulation, which includes U.S. Treasury obligations, securities of various federal agencies, "bank qualified" municipal bonds, certain certificates of deposit of insured banks, repurchase agreements, federal funds and mortgage-backed securities ("MBS"), but does not permit investment in non-investment grade bonds. The policy also dictates the criteria for classifying securities into one of three categories: held to maturity, available for sale or trading. At March 31, 2010, no investment securities were held for trading. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies."

At March 31, 2010, the Company's investment portfolio totaled \$10.4 million, primarily consisting of \$5.1 million in U.S. agency securities available-for-sale, \$2.8 million in mortgage-backed securities available-for-sale, and \$1.0 million in trust preferred securities available-for-sale. This compares with a total investment portfolio of \$13.7 million at March 31, 2009, primarily consisting of \$5.1 million in U.S. agency securities available-for-sale, \$4.1 million in mortgage-backed securities available-for-sale, \$2.3 million in municipal securities available-for-sale, and \$1.1 million in trust preferred securities available-for-sale. At March 31, 2010, the Company owned no privately issued mortgage-backed securities. The Company does not believe that it has any exposure to sub-prime lending in its mortgage-backed securities portfolio. See Note 4 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K for additional information.

The following table sets forth the investment securities portfolio and carrying values at the dates indicated.

| | 2010 | | At March 31, 2009 | | 2008 | |
|---------------------------------------|----------------|----------------------|--|----------------------|----------------|----------------------|
| | Carrying Value | Percent of Portfolio | Carrying Value (Dollars in thousands) | Percent of Portfolio | Carrying Value | Percent of Portfolio |
| Held to maturity (at amortized cost): | | | | | | |
| REMICs | \$ 53 | 0.51% | \$ 348 | 2.55% | \$ 624 | 4.55% |
| FHLMC mortgage-backed securities | 86 | 0.83 | 94 | 0.69 | 104 | 0.76 |
| FNMA mortgage-backed securities | 120 | 1.15 | 128 | 0.94 | 157 | 1.15 |
| Municipal securities | 517 | 4.97 | 529 | 3.87 | - | - |
| | 776 | 7.46 | 1,099 | 8.05 | 885 | 6.46 |
| Available for sale (at fair value): | | | | | | |
| Agency securities | 5,017 | 48.21 | 5,054 | 37.01 | - | - |
| REMICs | 556 | 5.34 | 685 | 5.02 | 858 | 6.25 |
| FHLMC mortgage-backed securities | 2,219 | 21.33 | 3,310 | 24.24 | 4,390 | 32.02 |

| | | | | | | |
|---------------------------------------|-----------|---------|-----------|---------|-----------|---------|
| FNMA mortgage-backed securities | 53 | 0.51 | 71 | 0.52 | 90 | 0.66 |
| Municipal securities | 743 | 7.14 | 2,292 | 16.78 | 2,875 | 20.97 |
| Trust preferred securities | 1,042 | 10.01 | 1,144 | 8.38 | 4,612 | 33.64 |
| | 9,630 | 92.54 | 12,556 | 91.95 | 12,825 | 93.54 |
| Total investment securities | \$ 10,406 | 100.00% | \$ 13,655 | 100.00% | \$ 13,710 | 100.00% |

The following table sets forth the maturities and weighted average yields in the securities portfolio at March 31, 2010.

| | Less Than One Year | | One to Five Years | | More Than Five to Ten Years | | More Than Ten Years | |
|----------------------------------|-------------------------------|-----------|-------------------------------|--------------|--------------------------------|--------------|-------------------------------|--------------|
| | Weighted Average Amount | Yield (1) | Weighted Average Amount | Yield (1) | Weighted Average Amount | Yield (1) | Weighted Average Amount | Yield (1) |
| (Dollars in thousands) | | | | | | | | |
| Municipal securities | \$ - | -% | \$ - | -% | \$ 517 | 4.97% | \$ 743 | 4.38% |
| Agency securities | - | - | 5,017 | 3.06 | - | - | - | - |
| REMICs | - | - | - | - | 203 | 5.01 | 406 | 1.43 |
| FHLMC mortgage-backed securities | - | - | 2,219 | 4.01 | - | - | 86 | 3.55 |
| FNMA mortgage-backed securities | - | - | 40 | 6.52 | - | - | 133 | 2.88 |
| Trust preferred securities | - | - | - | - | - | - | 1,042 | 2.43 |
| Total | \$ - | -% | \$ 7,276 | 3.36% | \$ 720 | 4.98% | \$ 2,410 | 2.93% |

- (1) For available for sale securities carried at fair value, the weighted average yield is computed using amortized cost without a tax equivalent adjustment for tax-exempt obligations.

Investment securities available-for-sale were \$6.8 million at March 31, 2010, compared to \$8.5 million at March 31, 2009. The \$1.7 million decrease was attributable to calls, maturities, scheduled cash flows, principal paydowns and an impairment charge of \$1.0 million. Management reviews investment securities quarterly for the presence of other than temporary impairment (“OTTI”), taking into consideration current market conditions, the extent and nature of changes in fair value, issuer rating changes and trends, financial condition of the underlying issuers, current analysts’ evaluations, the Company’s ability and intent to hold investments until a recovery of fair value, which may be maturity, as well as other factors. The investment security that the Company recognized a non-cash impairment charge on is a trust preferred pooled security issued by other bank holding companies. Management believes it is possible that a substantial portion of the principal and interest will be received, that the Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell this security before the anticipated recovery of the remaining amortized cost basis.

At March 31, 2010, actual market prices, or relevant observable inputs for our trust preferred pooled security, continued to be unavailable as a result of the secondary market for trust preferred securities being restricted to a level determined to be inactive. This determination was made considering the low number of observable transactions for trust preferred securities or similar collateral debt obligations, the significant widening of the bid-ask spread in the brokered markets in which these securities trade, the low number of new issuances for similar securities, the significant increase in implied liquidity risk premiums, the lack of information that is released publicly, and from discussions management had with third-party industry analysts. Consistent with previous valuations, the Company determined that an income approach valuation technique (using cash flows and present value techniques) that

maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs was the most appropriate valuation technique. Management used significant unobservable inputs that reflect our assumptions of what a market participant would use to price this security at March 31, 2010. Significant unobservable inputs included selecting an appropriate discount rate, default rate and repayment assumptions. The Company estimated the discount rate by comparing rates for similarly rated corporate bonds, with additional consideration given to market liquidity. The default rates and repayment assumptions were estimated based on the individual issuer's financial conditions, historical repayment information, as well as our future expectations of the capital markets. Using this information, the Company estimated the fair value of the security at March 31, 2010 to be \$1.0 million.

Additionally, the Company received two independent Level 3 valuation estimates for this security. Those valuation estimates were based on proprietary pricing models utilizing significant unobservable inputs. Although the Company's estimate of fair value fell within the range of valuations provided, the magnitude in the range of fair values estimates further supported the difficulty in estimating the fair value for these types securities in the current environment.

In April 2009, accounting guidance was issued on the recognition and presentation of OTTI – see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies." To determine the component of OTTI related to credit losses, the Company compared the amortized cost basis of the security to the present value of the revised expected cash flows, discounted using the current pre-impairment yield. The revised expected cash flow

estimates were based primarily on an analysis of default rates, prepayment speeds and third-party analytical reports. In general, default rates of the underlying individual issuers has increased resulting in a decline in value of the security. In determining the expected default rates and prepayment speeds, management evaluated, among other things, the individual issuers financial condition including capital levels, nonperforming asset amounts, loan loss reserve levels, and portfolio composition and concentrations. As a result of this analysis, the Company recorded an adjustment, net of taxes, which decreased accumulated other comprehensive income with a corresponding adjustment to increase beginning retained earnings totaling \$1.5 million at March 31, 2009.

For additional information on our Level 3 fair value measurements see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Comparison of Financial Condition at March 31, 2010 and 2009," "Fair Value of Level 3 Assets," and Item 1A, "Risk Factors – Risks Related to our Business – Other-than-temporary impairment charges in our investment securities portfolio could result in significant losses and cause Riverview Community Bank to become significantly undercapitalized and adversely affect our continuing operations," and Note 18 of the Notes to the Consolidated Financial Statements contained in Item 8 of the Form 10-K.

Deposit Activities and Other Sources of Funds

General. Deposits, loan repayments and loan sales are the major sources of the Company's funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources. They may also be used on a longer-term basis for general business purposes.

Deposit Accounts. The Company attracts deposits from within its primary market area by offering a broad selection of deposit instruments, including demand deposits, negotiable order of withdrawal ("NOW") accounts, money market accounts, regular savings accounts, certificates of deposit and retirement savings plans. Historically, the Company has focused on retail deposits. Expansion in commercial lending has led to growth in business deposits including demand deposit accounts. Business checking accounts have grown \$12.5 million to \$75.4 million at March 31, 2010 from \$62.9 million at March 31, 2008, an increase of 19.9%. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of its deposit accounts, the Company considers the rates offered by its competition, profitability to the Company, matching deposit and loan products and customer preferences and concerns. The Company generally reviews its deposit mix and pricing weekly.

The following table sets forth the average balances of deposit accounts offered by the Company at the dates indicated.

| | 2010 | | Year Ended March 31, 2009 | | 2008 | |
|-----------------------------|--------------------|-----------------|------------------------------|-----------------|--------------------|-----------------|
| | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate |
| (Dollars in thousands) | | | | | | |
| Non-interest-bearing demand | \$ 87,508 | 0.00% | \$ 81,566 | 0.00% | \$ 82,776 | 0.00% |
| Interest checking | 79,444 | 0.42 | 86,986 | 1.13 | 129,552 | 3.02 |
| Regular savings accounts | 29,526 | 0.55 | 27,138 | 0.55 | 27,403 | 0.55 |
| Money market accounts | 192,064 | 1.23 | 173,853 | 2.19 | 219,528 | 4.05 |
| Certificates of deposit | 277,639 | 2.44 | 282,055 | 3.66 | 197,049 | 4.67 |

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| | | | | | | |
|-------|------------|-------|------------|-------|------------|-------|
| Total | \$ 666,181 | 1.45% | \$ 651,598 | 2.34% | \$ 656,308 | 3.37% |
|-------|------------|-------|------------|-------|------------|-------|

For additional information regarding our deposit accounts, see Note 9 of the Notes to the Consolidated Financial Statements contained in Item 8 of the Form 10-K.

Deposit accounts totaled \$688.0 million at March 31, 2010 compared to \$670.1 million at March 31, 2009. The continued low interest rates have resulted in customers placing their deposits into money market accounts and certificate of deposits, which earn the highest interest rate yields. Money market and certificate of deposit accounts increased \$31.1 million and \$14.0 million, respectively at March 31, 2010 compared to March 31, 2009.

The Company did not have any wholesale-brokered deposits at March 31, 2010 compared to \$19.9 million, or 2.9% of total deposits, at March 31, 2009. Customer branch deposit balances increased \$51.3 million since March 31, 2009. The increase in deposits resulted from a continued effort by the Company to increase its core deposits. The Company continues to focus

deposit growth around customer relationships as opposed to obtaining deposits through the wholesale markets. However, the Company has continued to experience increased competition for customer deposits within its market area. Overall, growth in deposits was suppressed by a decrease in the average account balances of many of our real estate related customers reflecting the slowdown of home sales and other transaction closings. Additionally, the Company had \$31.9 million, or 4.6% of total deposits, in CDARS deposits, which were gathered from customers within the Company's primary market-area. In the first quarter of fiscal 2010, the OTS informed the Company that it was placing a restriction through a Supervisory Letter Directive on the Bank's ability to increase brokered deposits, including the Bank's reciprocal CDARS program, to no more than 10% of total deposits.

At March 31, 2010 and 2009, deposits from RAMCorp totaled \$1.9 million and \$29.0 million, respectively. These deposits were included in interest checking accounts and represent assets under management by RAMCorp. The reduction in these deposits was a strategic decision made by the Company to reduce its overall costs of funding as these funds at the time were more costly than other deposits. At March 31, 2010, the Company also had \$5.4 million in deposits from public entities located in the State of Washington, all of which were fully covered by FDIC insurance or secured by pledged collateral.

Deposit growth remains a key strategic focus for the Company and our ability to achieve deposit growth, particularly growth in core deposits, is subject to many risk factors including the effects of competitive pricing pressures, changing customer deposit behavior, and increasing or decreasing interest rate environments. Adverse developments with respect to any of these risk factors could limit the Company's ability to attract and retain deposits and could have a material negative impact on the Company's financial condition, results of operations and cash flows.

The following table presents the amount and weighted average rate of certificates of deposit equal to or greater than \$100,000 at March 31, 2010.

| Maturity Period | Amount | Weighted Average Rate |
|-------------------------------|------------------------|-----------------------------|
| | (Dollars in thousands) | |
| Three months or less | \$ 51,031 | 1.54% |
| Over three through six months | 46,712 | 1.83 |
| Over six through 12 months | 56,879 | 1.62 |
| Over 12 Months | 24,560 | 2.91 |
| Total | \$ 179,182 | 1.83% |

Borrowings. Deposits are the primary source of funds for the Company's lending and investment activities and for its general business purposes. The Company relies upon advances from the FHLB of Seattle and borrowings from the Federal Reserve Bank of San Francisco ("FRB") to supplement its supply of lendable funds and to meet deposit withdrawal requirements. Advances from the FHLB of Seattle and borrowings from the FRB are typically secured by the Bank's commercial loans, commercial real estate loans, first mortgage loans and investment securities.

The FHLB functions as a central reserve bank providing credit for savings and loan associations and certain other member financial institutions. As a member, the Bank is required to own capital stock in the FHLB and is authorized to apply for advances on the security of such stock and certain of its mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States) provided certain standards related to creditworthiness have been met. The FHLB determines specific lines of credit for each member institution and the Bank has a line of credit with the FHLB of Seattle equal to 30% of its total assets to the extent the Bank provides qualifying collateral and holds sufficient FHLB stock. At March 31, 2010, the Bank had \$23.0 million of outstanding advances from the FHLB of Seattle under an available credit facility of \$256.7 million, which is limited to available collateral.

The Company also has a borrowing arrangement with the FRB under the Borrower-In-Custody program. Under this program, the Bank had an available credit facility of \$130.7 million, subject to pledged collateral, as of March 31, 2010. At March 31, 2010, the Bank had \$10.0 million of outstanding borrowings from the FRB.

The following tables set forth certain information concerning the Company's FHLB advances and FRB borrowings at the dates and for the periods indicated. All of the FHLB advances and FRB borrowings are scheduled to mature during fiscal year 2011.

| | At March 31, | | |
|--|------------------------|-----------|-----------|
| | 2010 | 2009 | 2008 |
| | (Dollars in thousands) | | |
| FHLB advances outstanding | \$ 23,000 | \$ 37,850 | \$ 92,850 |
| Weighted average rate on FHLB advances | 0.64% | 2.02% | 3.35% |
| FRB borrowings outstanding | \$ 10,000 | \$ 85,000 | \$ - |
| Weighted average rate on FRB advances | 0.50% | 0.25% | - |

| | Year Ended March 31, | | |
|--|------------------------|------------|------------|
| | 2010 | 2009 | 2008 |
| | (Dollars in thousands) | | |
| Maximum amounts of FHLB advances outstanding at any month end | \$ 23,000 | \$ 144,860 | \$ 122,200 |
| Average FHLB advances outstanding | 7,116 | 115,303 | 47,769 |
| Weighted average rate on FHLB advances | 1.07% | 1.99% | 4.32% |
| Maximum amounts of FRB borrowings outstanding at any month end | \$ 145,000 | \$ 85,000 | \$ - |
| Average FRB borrowings outstanding | 85,978 | 10,000 | - |
| Weighted average rate on FRB borrowings | 0.28% | 0.25% | - |

At March 31, 2010, the Company had two wholly-owned subsidiary grantor trusts totaling \$22.7 million 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 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 March 31, 2010 and 2009 is included in prepaid expenses and other assets in the Consolidated Balance Sheets included in the Consolidated Financial Statements contained in Item 8 of the Form 10-K. See also Note 13 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

Taxation

For details regarding the Company's taxes, see Item 8 – "Financial Statements and Supplementary Data - Note 14 of the Notes to the Consolidated Financial Statements."

Personnel

As of March 31, 2010, the Company had 233 full-time equivalent employees, none of whom are represented by a collective bargaining unit. The Company believes its relationship with its employees is good.

Corporate Information

The Company's principal executive offices are located at 900 Washington Street, Vancouver, Washington 98660. Its telephone number is (360) 693-6650. The Company maintains a website with the address www.riverviewbank.com. The information contained on the Company's website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor's own Internet access charges, the Company makes available free of charge

through its website the Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after it has electronically filed such material with, or furnished such material to, the Securities and Exchange Commission (“SEC”).

Subsidiary Activities

Under OTS regulations, the Bank is authorized to invest up to 3% of its assets in subsidiary corporations, with amounts in excess of 2% only if primarily for community purposes. At March 31, 2010, the Bank’s investments of \$1.0 million in Riverview Services, Inc. (“Riverview Services”), its wholly owned subsidiary, and \$2.2 million in RAMCorp, an 85% owned subsidiary, were within these limitations.

Riverview Services acts as a trustee for deeds of trust on mortgage loans granted by the Bank, and receives a reconveyance fee for each deed of trust. Riverview Services had net income of \$28,000 for the fiscal year ended March 31, 2010 and total assets of \$1.0 million at that date. Riverview Services’ operations are included in the Consolidated Financial Statements of the Company contained in Item 8 of the Form 10-K.

RAMCorp is an asset management company providing trust, estate planning and investment management services. RAMCorp commenced business in December 1998 and had net income of \$372,000 for the fiscal year ended March 31, 2010 and total assets of \$2.7 million at that date. RAMCorp earns fees on the management of assets held in fiduciary or agency capacity. At March 31, 2010, total assets under management totaled \$279.5 million. RAMCorp’s operations are included in the Consolidated Financial Statements of the Company contained in Item 8 of this Form 10-K.

Executive Officers. The following table sets forth certain information regarding the executive officers of the Company.

| Name | Age (1) | Position |
|--------------------|---------|--|
| Patrick Sheaffer | 70 | Chairman of the Board and Chief Executive Officer |
| Ronald A. Wysaske | 57 | President and Chief Operating Officer |
| David A. Dahlstrom | 59 | Executive Vice President and Chief Credit Officer |
| Kevin J. Lycklama | 32 | Executive Vice President and Chief Financial Officer |
| John A. Karas | 61 | Executive Vice President |
| James D. Baldovin | 51 | Executive Vice President Retail Banking |

(1) At March 31, 2010

Patrick Sheaffer is Chairman of the Board and Chief Executive Officer of the Company and Chief Executive Officer of the Bank, positions he has held since February 2004. Prior to February 2004, Mr. Sheaffer served as Chairman of the Board, President and Chief Executive Officer of the Company since its inception in 1997. He became Chairman of the Board of the Bank in 1993. Mr. Sheaffer joined the Bank in 1963. He is responsible for leadership and management of the Company. Mr. Sheaffer is active in numerous professional and civic organizations.

Ronald A. Wysaske is President and Chief Operating Officer of the Bank, positions he has held since February 2004. Prior to February 2004, Mr. Wysaske served as Executive Vice President, Treasurer and Chief Financial Officer of the Bank from 1981 to 2004 and of the Company since its inception in 1997. He joined the Bank in 1976. Mr. Wysaske is responsible for daily operations and management of the Bank. He holds an M.B.A. from Washington State University and is active in numerous professional, educational and civic organizations.

David A. Dahlstrom is Executive Vice President and Chief Credit Officer and is responsible for all Riverview lending divisions related to its commercial, mortgage and consumer loan activities. Prior to joining Riverview in May 2002, Mr. Dahlstrom spent 14 years with First Interstate Bank and progressed through a number of management positions, including serving as Senior Vice President of the Business Banking Group in Portland. In 1999, Mr. Dahlstrom joined a regional bank as Executive Vice President/Community Banking, responsible for all branch operations and small business banking.

Kevin J. Lycklama is Executive Vice President and Chief Financial Officer of the Company, positions he has held since February 2009. Prior to February 2008, Mr. Lycklama served as Vice President and Controller of the Bank since 2006. Prior to joining Riverview, Mr. Lycklama spent five years with a local public accounting firm advancing to the level of audit manager. He is responsible for accounting, SEC reporting as well as treasury functions for the Bank and the Company. He holds a Bachelor of Arts degree from Washington State University and is a certified public accountant.

John A. Karas is Executive Vice President of the Bank and also serves as Chairman of the Board, President and CEO of its subsidiary, RAMCorp. Mr. Karas has been employed by the Company since 1999 and has over 20 years of trust experience. He is familiar with all phases of the trust business and his experience includes trust administration, trust legal council,

investments and real estate. Mr. Karas received his B.A. from Willamette University and his Juris Doctor degree from Lewis & Clark Law School's Northwestern School of Law. He is a member of the Oregon, Multnomah County and American Bar Associations and is a Certified Trust and Financial Advisor. Mr. Karas is also active in numerous civic organizations.

James D. Baldovin is Executive Vice President of Retail Banking and is responsible for the Bank's branch banking network, customer service, sales and community development. Mr. Baldovin has been employed by the Bank since January 2003 and has over 25 years of banking expertise in developing and leading sales and service cultures. He holds a Bachelor of Arts degree in economics from Linfield College and is a graduate of the Pacific Coast Banking School.

REGULATION

The following is a brief description of certain laws and regulations which are applicable to the Company and the Bank. The description of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere herein, does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

Congress is currently considering various significant regulatory reform proposals. If new legislation is enacted, it could have a significant impact on the regulation and operations of financial institutions and their holding companies. The proposals generally provide for the elimination of the OTS, the Company's and the Bank's primary regulator, and could require the Company to become a bank holding company, making it subject to regulatory capital requirements for the first time. In addition, the Bank could be required to convert to a national bank or a state bank charter. There are also proposals for the creation of a new consumer financial protection agency that would issue and enforce consumer protection initiatives governing financial products and services. The details and impact of regulatory reform proposals cannot be determined until new legislation is enacted. In addition, the regulations governing the Company and the Bank may be amended from time to time. Any legislative or regulatory changes in the future could adversely affect our operations and financial condition. No assurance can be given as to whether or in what form any such changes may occur.

Legislation is introduced from time to time in the United States Congress that may affect the Company's operations. In addition, the regulations governing the Bank may be amended from time to time by the OTS. Any such legislation or regulatory changes in the future could have an adverse affect. We cannot predict whether any such changes may occur.

General

As a federally chartered savings institution, the Bank is subject to extensive regulation, examination and supervision by the OTS, as its primary federal regulator, and the FDIC, as the insurer of its deposits. The Bank is a member of the FHLB System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund, which is administered by the FDIC. The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the OTS to evaluate the Bank's safety and soundness and compliance with various regulatory requirements. Under certain circumstances the FDIC may also examine the Bank. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the OTS, the FDIC or Congress, could have a material adverse impact on the Company and the Bank and their operations. The Company, as a savings and loan holding company, is required to file certain

reports with, is subject to examination by, and otherwise must comply with the rules and regulations of the OTS. The Company is also subject to the rules and regulations of the SEC under the federal securities laws. See "-- Savings and Loan Holding Company Regulations."

Federal Regulation of Savings Institutions

Office of Thrift Supervision. The OTS has extensive authority over the operations of savings institutions. As part of this authority, the Bank is required to file periodic reports with the OTS and is subject to periodic examinations by the OTS. The OTS also has extensive enforcement authority over all savings institutions and their holding companies, including the Bank and the Company. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease-and-desist or removal orders and initiate prompt corrective action orders. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS. Except under certain circumstances, public disclosure of final enforcement actions by the OTS is required by law.

In January 2009, the OTS finalized an informal supervisory agreement, a Memorandum of Understanding (“MOU”), which was reviewed and approved by the Board on January 21, 2009. Under that agreement, the Bank must, among other things, develop a plan for achieving and maintaining a minimum Tier 1 Capital (Leverage) Ratio of 8% and a minimum Total Risk-Based Capital Ratio of 12%, compared to its current minimum required regulatory Tier 1 Capital (Leverage) Ratio of 4% and Total Risk-Based Capital Ratio of 8%. As of March 31, 2010, the Bank’s leverage ratio was 9.84% (1.84% over the new required minimum) and its risk-based capital ratio was 12.11% (0.11% over the new required minimum). The MOU also requires the Bank to: (a) remain in compliance with the minimum capital ratios contained in the business plan; (b) provide notice to and obtain a non-objection from the OTS prior to the Bank declaring a dividend; (c) maintain an adequate allowance for loan and lease losses (ALLL); (d) engage an independent consultant to conduct a comprehensive evaluation of the Bank’s asset quality; (e) submit a quarterly update to its written comprehensive plan to reduce classified assets, that is acceptable to the OTS; and (f) obtain written approval of the Loan Committee and the Board prior to the extension of credit to any borrower with a classified loan.

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

The Board and Bank management do not believe that either of these agreements have or will constrain the Bank’s business plan and furthermore, believes that the Company and the Bank are currently in compliance with all of the requirements through its normal business operations. These requirements will remain in effect until modified or terminated by the OTS. For more information about the MOU and its impact on the Bank, see “Item 1A, Risk Factors – Risks Related to Our Business – We are subject to extensive regulation that could restrict our activities and impose financial requirements or limitations on the conduct of our business.”

In addition, the investment, lending and branching authority of the Bank also are prescribed by federal laws, which prohibit the Bank from engaging in any activities not permitted by these laws. For example, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal institutions in loans secured by non-residential real property may not exceed 400% of total capital, except with approval of the OTS. Federal savings institutions are generally authorized to branch nationwide. The Bank is in compliance with the noted restrictions.

All savings institutions are required to pay assessments to the OTS to fund the agency's operations. The general assessments, paid on a semi-annual basis, are determined based on the savings institution's total assets, including consolidated subsidiaries. The Bank's OTS assessment for the fiscal year ended March 31, 2010 was \$309,000.

The Bank's general permissible lending limit for loans-to-one-borrower is equal to the greater of \$500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At March 31, 2010, the Bank's lending limit under this restriction was \$15.2 million and, at that date, the Bank’s largest lending relationship with one borrower was \$11.0 million, which consisted of one commercial construction loan with an outstanding balance of \$2.1 million and one commercial real estate mortgage loan with an outstanding balance of \$8.3 million, both of which were performing according to their original terms at March 31, 2010.

The OTS, as well as the other federal banking agencies, has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution that fails

to comply with these standards must submit a compliance plan.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Seattle, which is one of 12 regional FHLBs that administer the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. See Business – Deposit Activities and Other Sources of Funds – Borrowings.”

As a member, the Bank is required to purchase and maintain stock in the FHLB of Seattle. At March 31, 2010, the Bank had \$7.4 million in FHLB stock, which was in compliance with this requirement. The Bank did not receive any dividends from the FHLB of Seattle for the year ended March 31, 2010. Subsequent to December 31, 2008, the FHLB of Seattle announced that it was below its regulatory risk-based capital requirement and it is now precluded from paying dividends or repurchasing capital stock. The FHLB of Seattle is not anticipated to resume dividend payments until their financial results improve. The FHLB of Seattle has not indicated when dividend payments may resume.

The FHLBs have continued and continue to contribute to low- and moderately-priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Bank's FHLB stock may result in a corresponding reduction in the Bank's capital.

Federal Deposit Insurance Corporation. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. Beginning in October 2008, the FDIC temporarily increased FDIC deposit insurance coverage per separately insured depositor to \$250,000 through December 31, 2013. On January 1, 2014, the coverage limit is scheduled to return to \$100,000, except for certain retirement accounts which will be insured up to \$250,000.

The FDIC assesses deposit insurance premiums on each FDIC-insured institution quarterly based on annualized rates for four risk categories applied to its deposits, subject to certain adjustments. Each institution is assigned to one of four risk categories based on its capital, supervisory ratings and other factors. Well capitalized institutions that are financially sound with only a few minor weaknesses are assigned to Risk Category I. Risk Categories II, III and IV present progressively greater risks to the DIF. Under FDIC's risk-based assessment rules, effective April 1, 2009, the initial base assessment rates prior to adjustments range from 12 to 16 basis points for Risk Category I, and are 22 basis points for Risk Category II, 32 basis points for Risk Category III, and 45 basis points for Risk Category IV. Initial base assessment rates are subject to adjustments based on an institution's unsecured debt, secured liabilities and brokered deposits, such that the total base assessment rates after adjustments range from 7 to 24 basis points for Risk Category I, 17 to 43 basis points for Risk Category II, 27 to 58 basis points for Risk Category III, and 40 to 77.5 basis points for Risk Category IV. Rates increase uniformly by three basis points effective January 1, 2011.

In addition to the regular quarterly assessments, due to losses and projected losses attributed to failed institutions, the FDIC imposed on every insured institution a special assessment of five basis points on the amount of each depository institution's assets reduced by the amount of its Tier 1 capital (not to exceed 10 basis points of its assessment base for regularly quarterly premiums) as of June 30, 2009, which was collected on September 30, 2009. The Bank paid \$417,000 for this special FDIC assessment in September 2009.

As a result of a decline in the reserve ratio (the ratio of the DIF to estimated insured deposits) and concerns about expected failure costs and available liquid assets in the DIF, the FDIC adopted a rule requiring each insured institution to prepay on December 30, 2009 the estimated amount of its quarterly assessments for the fourth quarter of 2009 and all quarters through the end of 2012 (in addition to the regular quarterly assessment for the third quarter which was due on December 30, 2009). The prepaid amount is recorded as an asset with a zero risk weight and the institution will continue to record quarterly expenses for deposit insurance. For purposes of calculating the prepaid amount, assessments were measured at the institution's assessment rate as of September 30, 2009, with a uniform increase of 3 basis points effective January 1, 2011, and were based on the institution's assessment base for the third quarter of 2009, with growth assumed quarterly at annual rate of 5%. If events cause actual assessments during the prepayment period to vary from the prepaid amount, institutions will pay excess assessments in cash or receive a rebate of prepaid amounts not exhausted after collection of assessments due on June 30, 2013, as applicable. Collection of the prepayment does not preclude the FDIC from changing assessment rates or revising the risk-based assessment system in the future. The rule includes a process for exemption from the prepayment for institutions whose safety and soundness would be affected adversely. The Bank prepaid \$5.4 million in FDIC assessments during the fourth quarter

of 2009, which will be expensed over 2010, 2011 and 2012. The balance of the prepaid assessment was \$4.7 million at March 31, 2010.

In October 2008, the FDIC introduced the Temporary Liquidity Guarantee Program (the “TLGP”), a program designed to improve the functioning of the credit markets and to strengthen capital in the financial system during this period of economic distress. The TLGP has two components: 1) a Debt Guarantee Program (“DGP”), guaranteeing newly issued senior unsecured debt, and 2) a Transaction Account Guarantee Program (“TAGP”), providing a full guarantee of non-interest bearing deposit transaction accounts, Negotiable Order of Withdrawal (“NOW”) accounts paying less than 0.5%

annual interest, and interest on lawyers trust accounts, regardless of the amount. The Bank and the Company participate in the DGP, however, no debt has been issued by the Bank and the Company under the DGP as of March 31, 2010. The Bank is presently participating in the TAGP during the extension period ending December 31, 2010. The fees for this program range from 15 to 25 basis points (annualized), depending on the institutions risk category for deposit insurance assessment purposes, assessed on amounts in covered accounts exceeding \$250,000.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and during the fiscal year ending March 31, 2010 averaged 5.36 basis points of assessable deposits. The Financing Corporation was chartered in 1987, by the OTS' predecessor, the Federal Home Loan Bank Board solely for the purpose of functioning as a vehicle for the recapitalization of the deposit insurance system.

Prompt Corrective Action. The OTS is required to take certain supervisory actions against undercapitalized savings institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, an institution that has a ratio of total capital to risk-weighted assets of less than 8%, a ratio of Tier 1 (core) capital to risk-weighted assets of less than 4%, or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." An institution that has a total risk-based capital ratio less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and an institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OTS is required to appoint a receiver or conservator for a savings institution that is "critically undercapitalized." OTS regulations also require that a capital restoration plan be filed with the OTS within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. "Significantly undercapitalized" and "critically undercapitalized" institutions are subject to more extensive mandatory regulatory actions. The OTS also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. At March 31, 2010, the Bank's capital ratios met the "well capitalized" standards.

Qualified Thrift Lender Test. All savings institutions, including the Bank, are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on their operations. This test requires a savings institution to have at least 65% of its total assets, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings institution may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code ("Code"). Under either test, such assets primarily consist of residential housing related loans and investments.

A savings institution that fails to meet the QTL is subject to certain operating restrictions and may be required to convert to a national bank charter. As of March 31, 2010, the Bank maintained 67.50% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

Capital Requirements. Federally insured savings institutions, such as the Bank, are required by the OTS to maintain minimum levels of regulatory capital. These minimum capital standards include: a 1.5% tangible capital to total assets ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards, discussed above, also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS system) and, together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. The OTS regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires federal savings institutions to maintain Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OTS capital regulation based on the risks believed inherent in the type of asset. Tier 1 (core) capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock,

the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The OTS also has authority to establish individual minimum capital requirements for financial institutions. As previously discussed, in January 2009, the Bank entered into an MOU with the OTS which requires the Bank to achieve and maintain capital levels in excess of the minimum capital standards required under OTS's Prompt Corrective Actions. Under the MOU, the Bank must achieve and maintain Tier 1 (core) leverage ratio of 8% and total risk-based capital ratio of 12%. For additional information, see Item 1A, "Risk Factors – Risks Related to Our Business – We are required to comply with the terms of two memoranda of understanding and a supervisory letter directive issued by the OTS and lack of compliance could result in monetary penalties and/or additional regulatory actions" and Note 17 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Limitations on Capital Distributions. OTS regulations impose various restrictions on savings institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Generally, savings institutions, such as the Bank, that before and after the proposed distribution are well-capitalized, may make capital distributions during any calendar year equal to up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision by the OTS, such as the Bank, may have its dividend authority restricted by the OTS. In accordance with the provisions of the MOU, the Bank may not pay dividends to the Company without prior approval of the OTS.

Generally, savings institutions proposing to make any capital distribution need not submit written notice to the OTS prior to such distribution unless they are a subsidiary of a holding company or would not remain well capitalized following the distribution. Savings institutions that do not, or would not meet their current minimum capital requirements following a proposed capital distribution or propose to exceed these net income limitations, must obtain OTS approval prior to making such distribution. The OTS may object to the distribution during that 30-day period based on safety and soundness concerns. See "- Capital Requirements."

Activities of Associations and their Subsidiaries. When a savings institution establishes or acquires a subsidiary or elects to conduct any new activity through a subsidiary that the association controls, the savings institution must file a notice or application with the FDIC and the OTS at least 30 days in advance and receive regulatory approval or non-objection. Savings institutions also must conduct the activities of subsidiaries in accordance with existing regulations and orders.

The OTS may determine that the continuation by a savings institution of its ownership control of, or its relationship to, the subsidiary constitutes a serious risk to the safety, soundness or stability of the association or is inconsistent with sound banking practices or with the purposes of the FDIC. Based upon that determination, the FDIC or the OTS has the authority to order the savings institution to divest itself of control of the subsidiary. The FDIC also may determine by regulation or order that any specific activity poses a serious threat to the Deposit Insurance Fund. If so, it may require that no FDIC insured institution engage in that activity directly.

Transactions with Affiliates. The Bank's authority to engage in transactions with "affiliates" is limited by OTS regulations and by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. The Company and its non-savings institution subsidiaries are affiliates of the Bank. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions are restricted to an aggregate percentage of the institution's capital. Collateral in specified amounts must be provided by affiliates in order to receive loans from an institution. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that

are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") generally prohibits a company from making loans to its executive officers and directors. However, that act contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws. Under such laws, the Bank's authority to extend credit to executive officers, directors and 10% stockholders of the Bank and its affiliates ("insiders"), as well as entities such persons control is limited. The law restricts both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on the Bank's capital position and requires certain Board approval procedures to be followed. Such loans must be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk

of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. There are additional restrictions applicable to loans to executive officers.

Community Reinvestment Act. Under the Community Reinvestment Act ("CRA"), every FDIC-insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the OTS, in connection with the examination of the Bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by the Bank. An unsatisfactory rating may be used as the basis for the denial of an application by the OTS. Due to the heightened attention being given to the CRA in the past few years, the Bank may be required to devote additional funds for investment and lending in its local community. The Bank was examined for CRA compliance and received a rating of outstanding in its latest examination.

Enforcement. The OTS has primary enforcement responsibility over savings institutions and has the authority to bring action against all "institution-affiliated parties," including shareholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers or directors, receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can range from \$25,000 to \$1.1 million per day. The FDIC has the authority to recommend to the Director of the OTS that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Standards for Safety and Soundness. As required by statute, the federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OTS determines that a savings institution fails to meet any standard prescribed by the guidelines, the OTS may require the institution to submit an acceptable plan to achieve compliance with the standard.

Environmental Issues Associated with Real Estate Lending. The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), a federal statute, generally imposes strict liability on all prior and present "owners and operators" of sites containing hazardous waste. However, Congress asked to protect secured creditors by providing that the term "owner and operator" excludes a person whose ownership is limited to protecting its security interest in the site. Since the enactment of the CERCLA, this "secured creditor exemption" has been the subject of judicial interpretations which have left open the possibility that lenders could be liable for cleanup costs on contaminated property that they hold as collateral for a loan. In addition, we may be subject to environmental liabilities with respect to real estate properties that are placed in foreclosure that we subsequently take title to. See Item 1A, "Risk Factors – Our real estate lending also exposes us to the risk of environmental liabilities."

To the extent that legal uncertainty exists in this area, all creditors, including the Bank, that have made loans secured by properties with potential hazardous waste contamination (such as petroleum contamination) could be subject to liability for cleanup costs, which could substantially exceed the value of the collateral property.

Privacy Standards. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 ("GLBA"), which was enacted in 1999, modernized the financial services industry by establishing a comprehensive framework to permit

affiliations among commercial banks, insurance companies, securities firms and other financial service providers. The Bank is subject to OTS regulations implementing the privacy protection provisions of the GLBA. These regulations require the Bank to disclose its privacy policy, including identifying with whom it shares "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter.

Anti-Money Laundering and Customer Identification. Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act") on October 26, 2001 in response to the terrorist events of September 11, 2001. The USA Patriot Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased

information sharing, and broadened anti-money laundering requirements. In March 2007, Congress re-enacted certain expiring provisions of the USA Patriot Act.

Savings and Loan Holding Company Regulations

General. The Company is a unitary savings and loan holding company subject to regulatory oversight of the OTS. Accordingly, the Company is required to register and file reports with the OTS and is subject to regulation and examination by the OTS. In addition, the OTS has enforcement authority over the Company and its non-savings institution subsidiaries which also permits the OTS to restrict or prohibit activities that are determined to present a serious risk to the subsidiary savings institution.

Activities Restrictions. The GLBA provides that no company may acquire control of a savings association after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies under the law or for multiple savings and loan holding companies as described below. Further, the GLBA specifies that, subject to a grandfather provision, existing savings and loan holding companies may only engage in such activities. The Company qualifies for the grandfathering and is therefore not restricted in terms of its activities. Upon any non-supervisory acquisition by the Company of another savings association as a separate subsidiary, the Company would become a multiple savings and loan holding company and would be limited to activities permitted multiple holding companies by OTS regulation. OTS has issued an interpretation concluding that multiple savings holding companies may also engage in activities permitted for financial holding companies, including lending, trust services, insurance activities and underwriting, investment banking and real estate investments.

Mergers and Acquisitions. The Company must obtain approval from the OTS before acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company or acquiring such an institution or holding company by merger, consolidation or purchase of its assets. In evaluating an application for the Company to acquire control of a savings institution, the OTS would consider the financial and managerial resources and future prospects of the Company and the target institution, the effect of the acquisition on the risk to the Deposit Insurance Fund, the convenience and the needs of the community and competitive factors.

The OTS may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions; (i) the approval of interstate supervisory acquisitions by savings and loan holding companies and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Acquisition of the Company. Under the Savings and Loan Holding Company Act and the Change in Bank Control Act, a notice or application must be submitted to the OTS if any person (including a company), or a group acting in concert, seeks to acquire 10% or more of the Company's outstanding voting stock, unless the OTS has found that the acquisition will not result in a change in control of the Company. In acting on such a notice or application, the OTS must take into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effect of the acquisition. Any company that acquires control will be subject to regulation as a savings and loan holding company.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 ("SOX Act") was signed into law on July 30, 2002 in response to public concerns regarding corporate accountability in connection with recent accounting scandals. The stated goals of the SOX Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The SOX Act generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the SEC under the Securities Exchange Act of 1934, including the Company.

The SOX Act includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and related rules. The SOX Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

Item 1A. Risk Factors

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment. The risks below also include forward-looking statements. This report is qualified in its entirety by these risk factors.

Risks Related to the U.S. Financial Industry

Difficult market conditions have adversely affected our industry.

We are particularly exposed to downturns in the U.S. housing market. Dramatic declines in the housing market over the past year, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities, major commercial and investment banks, and regional financial institutions such as Riverview. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressures on consumers and lack of confidence in the financial markets have adversely affected our business, financial condition and results of operations. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

- We potentially face increased regulation of our industry and a change in regulators for Riverview and Riverview Community Bank. Compliance with such regulation and the requirements of different regulators may increase our costs and limit our ability to pursue business opportunities.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage and underwrite our customers become less predictive of future behaviors.
- The process we use to estimate losses inherent in our loan and investment portfolios requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers and trust preferred securities issuers to repay their debts. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process.
- Competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions.
- We may be required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

Risks Related to our Business

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

In January 2009, Riverview Community Bank entered into a Memorandum of Understanding or MOU with the OTS. Under that agreement, Riverview Community Bank must, among other things, develop a plan for achieving and maintaining a minimum Tier 1 Capital (Leverage) Ratio of 8% and a minimum Total Risk-Based Capital Ratio of 12%, compared to its current minimum required regulatory Tier 1 Capital (Leverage) Ratio of 4% and Total Risk-Based Capital Ratio of 8%. As of March 31, 2010, Riverview Community Bank's leverage ratio was 9.84% (1.84% over the new required minimum) and its risk-based capital ratio was 12.11% (0.11% over the new required minimum). The MOU also requires Riverview Community Bank to:

- remain in compliance with the minimum capital ratios contained in Riverview Community Bank's business plan;

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

On June 9, 2009 the OTS issued a Supervisory Letter Directive or SLD to Riverview Community Bank that restricts the its brokered deposits (including CDARS) to 10% of total deposits. At March 31, 2010 and June 9, 2009, we did not have any wholesale-brokered deposits as compared to \$19.9 million, or 3.0% of total deposits, at March 31, 2009. Riverview Community Bank participates in the CDARS product, which allows Riverview Community Bank to accept deposits in excess of the FDIC insurance limit for that depositor and obtain "pass-through" insurance for the total deposit. Riverview Community Bank's CDARS balance was \$31.9 million, or 4.6% of total deposits, and \$22.2 million, or 3.3% of total deposits, at March 31, 2010 and March 31, 2009, respectively.

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

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

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

plan, pay dividends on or our common stock the value of our common stock as well as our financial condition and results of operations.

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

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

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

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

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

We make real estate construction loans to individuals and builders, primarily for the construction of residential properties. We originate these loans whether or not the collateral property underlying the loan is under contract for sale. At March 31, 2010, construction loans totaled \$75.5 million, or 10.3% of our total loan portfolio, of which \$35.4 million were for residential real estate projects. Approximately \$4.8 million of our residential construction loans were made to finance the construction of owner-occupied homes and are structured to be converted to permanent loans at the end of the construction phase. Land loans, which are loans made with land as security, totaled \$74.8 million, or 10.2%, of our total loan portfolio at March 31, 2010. Land loans include raw land and land acquisition and development loans. In general, construction, and land lending involves additional risks because of the inherent difficulty in estimating a property's value both before and at completion of the project as well as the estimated cost of the project. Construction costs may exceed original estimates as a result of increased materials, labor or other costs. In addition, because of current uncertainties in the residential real estate market, property values have become more difficult to determine than they have historically been. Construction loans and land acquisition and development loans often involve the disbursement of funds with repayment dependent, in part, on the success of the project and the ability of the borrower to sell or lease the property or refinance the indebtedness, rather than the ability of the borrower or guarantor to repay principal and interest. These loans are also generally more difficult to monitor. In addition, speculative construction loans to a builder are often associated with homes that are not pre-sold, and thus pose a greater potential risk than construction loans to individuals on their personal residences. At March 31, 2010, \$105.4 million of our construction and land loans were for speculative construction loans. Approximately \$23.9 million, or 22.7%, of our speculative construction and land loans were nonperforming at March 31, 2010.

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

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

At March 31, 2010, we had \$384.4 million of commercial and multi-family real estate mortgage loans, representing 52.3% of our total loan portfolio. These loans typically involve higher principal amounts than other types of loans, and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower's project is reduced as a result of leases not being obtained or renewed, the borrower's ability to repay the loan may be impaired. Commercial and multi-family mortgage loans also expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial and multi-family real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment.

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

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

The FDIC, the Federal Reserve and the Office of Thrift Supervision have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under this guidance, a financial institution that, like us, is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors (i) total reported loans for construction, land development, and other land represent 100% or more of total capital, or (ii) total reported loans secured by multifamily and non-farm residential properties, loans for construction, land development and other land, and loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300% or more of total capital. The particular focus of the guidance is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be at greater risk to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance states that management should employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. We have concluded that we have a concentration in commercial real estate lending under the foregoing standards because our \$317.4 million balance in commercial real estate loans at March 31, 2010 represents 300% or more of total capital. While we believe we have implemented policies and procedures with respect to our commercial real estate loan portfolio consistent with this guidance, bank regulators could require us to implement additional policies and procedures consistent with their interpretation of the guidance that may result in additional costs to us.

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

At March 31, 2010, we had \$108.4 million or 14.8% of total loans in commercial business loans. Commercial lending involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. Our commercial loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The borrowers' cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Although commercial loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use, among other things. Accordingly, the repayment of commercial loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower.

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

At March 31, 2010, \$91.5 million, or 12.5% of our total loan portfolio, was secured by one-to-four single-family mortgage loans and home equity lines of credit. This type of lending is generally sensitive to regional and local

economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. The decline in residential real estate values as a result of the downturn in the Washington and Oregon housing markets has reduced the value of the real estate collateral securing these types of loans and increased the risk that we would incur losses if borrowers default on their loans. Continued declines in both the volume of real estate sales and the sales prices coupled with the current recession and the associated increases in unemployment may result in higher than expected loan delinquencies or problem assets, a decline in demand for our products and services, or lack of growth or a decrease in deposits. These potential negative events may cause us to incur losses, adversely affect our capital and liquidity, and damage our financial condition and business operations.

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

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

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

For the fiscal years ended March 31, 2010 and 2009 we recorded a provision for loan losses of \$15.9 million and \$16.2 million, respectively. We also recorded net loan charge-offs of \$11.2 million and \$9.9 million for the fiscal years ended March 31, 2010 and 2009, respectively. During these last two fiscal years, we experienced increasing loan delinquencies and credit losses. With the exception of residential construction and development loans, nonperforming loans and assets generally reflect unique operating difficulties for individual borrowers rather than weakness in the overall economy of the Pacific Northwest; however, more recently the deterioration in the general economy has become a significant contributing factor to the increased levels of delinquencies and nonperforming loans. Slower sales and excess inventory in the housing market has been the primary cause of the increase in delinquencies and foreclosures for residential construction and land development loans, which represent 66.3% of our nonperforming loan balance at March 31, 2010. At March 31, 2010 our total nonperforming assets had increased to \$49.3 million compared to \$41.7 million at March 31, 2009. Further, our portfolio is concentrated in construction and land loans and commercial and commercial real estate loans, all of which have a higher risk of loss than residential mortgage loans.

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

We may have continuing losses.

We reported a net loss of \$5.4 million and \$2.7 million for the fiscal years ended March 31, 2010 and 2009, respectively. These losses primarily resulted from our high level of nonperforming assets and the resultant increased provision for loan losses and real estate owned ("REO"), related expenses and write-downs. We may continue to suffer further losses.

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

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

- the cash flow of the borrower and/or the project being financed;

- changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the duration of the loan;
- the credit history of a particular borrower; and
- changes in economic and industry conditions.

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

- our general reserve, based on our historical default and loss experience and certain macroeconomic factors based on management's expectations of future events; and

- our specific reserve, based on our evaluation of nonperforming loans and their underlying collateral.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and the loss and delinquency experience, and evaluate economic conditions and make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for additions to our allowance through an increase in the provision for loan losses. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. Our allowance for loan losses was 2.95% of gross loans held for investment and 60.10% of nonperforming loans at March 31, 2010. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. If charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the provision for loan losses will result in a decrease in net income and may have a material adverse effect on our financial condition, results of operations and our capital.

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

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

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

Other-than-temporary impairment charges in our investment securities portfolio could result in significant losses and cause Riverview Community Bank to become significantly undercapitalized and adversely affect our continuing operations.

During the fiscal year ended March 31, 2010, we recognized a \$1.0 million non-cash OTTI charge on a single trust preferred investment security we hold for investment. At March 31, 2010 the fair value of this security was \$1.0 million. Management concluded that the decline of the estimated fair value below the cost of the security was other than temporary and recorded a credit loss of \$1.0 million through non-interest income. We determined the remaining decline in value was not related to specific credit deterioration. We do not intend to sell this security and it is not more likely than not that we will be required to sell the security before anticipated recovery of the remaining amortized cost basis.

We closely monitor this security and our other investment securities for changes in credit risk. The valuation of our investment securities also is influenced by external market and other factors, including implementation of Securities

and Exchange Commission and Financial Accounting Standards Board guidance on fair value accounting. Our valuation of our trust preferred security will be influenced by the default rates of specific financial institutions whose securities provide the underlying collateral for this security. The current market environment significantly limits our ability to mitigate our exposure to valuation changes in this security by selling it. Accordingly, if market conditions deteriorate further and we determine our holdings of this or other investment securities are OTTI, our future earnings, shareholders' equity, regulatory capital and continuing operations could be materially adversely affected.

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

In the course of our business, we may foreclose and take title to real estate, and we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third persons for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental

contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected.

Fluctuating interest rates can adversely affect our profitability.

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

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

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

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

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

Further, the FDIC may impose additional emergency special assessments of up to five basis points per quarter on each institution's assets minus Tier 1 capital if necessary to maintain public confidence in federal deposit insurance or as a result of deterioration in the Deposit Insurance Fund reserve ratio due to institution failures. The latest date possible for imposing any such additional special assessment is December 31, 2009, with collection on March 30, 2010. Additionally, in November 2009, the FDIC announced that financial institutions are required to prepay their estimated quarterly risk-based assessment for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. In

December 2009, we prepaid \$5.4 million, which will be expensed over this three-year period. This prepayment did not immediately impact our earnings as the payment will be expensed over time, however, any additional emergency special assessment imposed by the FDIC will adversely affect our earnings.

We participate in the FDIC's Transaction Account Guarantee Program, or TAGP, for non-interest-bearing transaction deposit accounts. The TAGP is a component of the FDIC's Temporary Liquidity Guarantee Program, or TLGP. The TAGP was originally set to expire on December 31, 2009, but the FDIC established an extension period for the TAGP to run from January 1, 2010 through June 30, 2010, and subsequently extended it through December 31, 2010 with the possibility of a further extension through December 31, 2011. During the extension period, the fees for participating banks range from 15 to

25 basis points on the amounts in such accounts above the amounts covered by FDIC deposit insurance, depending on the risk category to which the bank is assigned for deposit insurance assessment purposes.

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

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

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. We rely on customer deposits and advances from the FHLB of Seattle ("FHLB"), borrowings from the Federal Reserve Bank of San Francisco ("FRB") and other borrowings to fund our operations. Although we have historically been able to replace maturing deposits and advances if desired, we may not be able to replace such funds in the future if, among other things, our financial condition, the financial condition of the FHLB or FRB, or market conditions change. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable could be impaired by factors that affect us specifically or the financial services industry or economy in general - such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations and the continued deterioration in credit markets. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the Washington or Oregon markets where our loans are concentrated or adverse regulatory action against us. In addition, the OTS has limited our ability to use brokered deposits as a source of liquidity by restricting them to not more than 10% of our total deposits.

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

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

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

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

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

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

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

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial condition and performance. Accordingly, we cannot make assurances that we will

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

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

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

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

Further, our regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws by financial institutions and holding companies in the performance of their supervisory and enforcement duties. In this regard, banking regulators are considering additional regulations governing compensation which may adversely affect our ability to attract and retain employees. On June 17, 2009, the Obama Administration published a comprehensive regulatory reform plan that is intended to modernize and protect the integrity of the United States financial system. The President's plan contains several elements that would have a direct effect on Riverview and Riverview Community Bank. Under the reform plan, the federal thrift charter and the OTS would be eliminated and all companies that control an insured depository institution must register as a bank holding company. Draft legislation would require Riverview Community Bank to become a national bank or adopt a state charter and require Riverview Bancorp to register as a bank holding company. Registration as a bank holding company would represent a significant change, as there currently exist significant differences between savings and loan holding company and bank holding company supervision and regulation. For example, the Federal Reserve imposes leverage and risk-based capital requirements on bank holding companies whereas the OTS does not impose any capital requirements on savings and loan holding companies. The reform plan also proposes the creation of a new federal agency, the Consumer Financial Protection Agency that would be dedicated to protecting consumers in the financial products and

services market. The creation of this agency could result in new regulatory requirements and raise the cost of regulatory compliance. In addition, legislation stemming from the reform plan could require changes in regulatory capital requirements, and compensation practices. If implemented, the foregoing regulatory reforms may have a material impact on our operations.

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

We performed our annual goodwill impairment test during the quarter-ended December 31, 2009, but no impairment was identified. Our assessment of the fair value of goodwill is based on an evaluation of current purchase transactions, discounted cash flows from forecasted earnings, our current market capitalization, and a valuation of our assets. Our evaluation of the fair

value of goodwill involves a substantial amount of judgment. If our judgment was incorrect and an impairment of goodwill was deemed to exist, we would be required to write down our assets resulting in a charge to earnings, which would adversely affect our results of operations, perhaps materially; however, it would have no impact on our liquidity, operations or regulatory capital.

Our litigation related costs might continue to increase.

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

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

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

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

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

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

The FDIC in the fourth quarter of 2008 increased the federal insurance of deposit accounts from \$100,000 to \$250,000 and provided 100% insurance coverage for noninterest-bearing transaction accounts for participating members including Riverview Community Bank. These increases of coverage, with the exception of IRA and certain retirement accounts, are scheduled to expire December 31, 2013. With the increase of bank failures, depositors are reviewing deposit relationships to maximize federal deposit insurance coverage. We may see outflows of uninsured deposits as customers restructure their banking relationships in setting up multiple accounts in multiple banks to maximize federal deposit insurance coverage.

Competition with other financial institutions could adversely affect our profitability.

The banking and financial services industry is very competitive. Legal and regulatory developments have made it easier for new and sometimes unregulated competitors to compete with us. Consolidation among financial service providers has resulted in fewer very large national and regional banking and financial institutions holding a large accumulation of assets. These institutions generally have significantly greater resources, a wider geographic presence or greater accessibility. Our competitors sometimes are also able to offer more services, more favorable pricing or greater customer convenience than we

do. In addition, our competition has grown from new banks and other financial services providers that target our existing or potential customers. As consolidation continues, we expect additional institutions to try to exploit our market.

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

We rely heavily on the proper functioning of our technology.

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

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

Changes in accounting standards may affect our performance.

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

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

Our mortgage banking operations provide a significant portion of our non-interest income. We generate mortgage revenues primarily from gains on the sale of single-family mortgage loans pursuant to programs currently offered by Fannie Mae, Freddie Mac and non-GSE investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Any future changes in these programs, our eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, materially adversely affect our results of operations. Further, in a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage banking revenues and a corresponding decrease in non-interest income. In

addition, our results of operations are affected by the amount of non-interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.

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

We may have opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions, including transactions in the states of Washington, Oregon and Idaho. Although these FDIC-assisted transactions typically provide for FDIC assistance to an acquirer to mitigate certain risks, such as sharing exposure to loan losses and providing indemnification against certain liabilities of the failed institution, we are (and would be in future transactions) subject to many of the same risks we would face in acquiring another bank in a negotiated transaction, including risks associated with

maintaining customer relationships and failure to realize the anticipated acquisition benefits in the amounts and within the timeframes we expect. In addition, because these acquisitions are structured in a manner that would not allow us the time and access to information normally associated with preparing for and evaluating a negotiated acquisition, we may face additional risks in FDIC-assisted transactions, including additional strain on management resources, management of problem loans, problems related to integration of personnel and operating systems and impact to our capital resources requiring us to raise additional capital. We cannot provide assurance that we would be successful in overcoming these risks or any other problems encountered in connection with FDIC-assisted transactions. Our inability to overcome these risks could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

Our assets as of March 31, 2010 include a deferred tax asset and we may not be able to realize the full amount of such asset.

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At March 31, 2010, the net deferred tax asset was approximately \$11.2 million an increase from a balance of approximately \$8.2 million at March 31, 2009. The increase in Riverview Community Bank's net deferred tax asset resulted mainly from loan loss provisions and REO write-downs, neither of which is currently deductible for federal income tax reporting purposes. The deferred tax asset balance at March 31,

2010 attributable to our loan loss reserves and REO write-downs was \$7.7 million and \$2.3 million, respectively.

We regularly review our net deferred tax assets for recoverability based on history of earnings, expectations for future earnings and expected timing of reversals of temporary differences. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income, including taxable income in prior carryback years, as well as future taxable income. We believe the recorded net deferred tax asset at March 31, 2010 is fully realizable; however, if we determine that we will be unable to realize all or part of the net deferred tax asset, we would adjust this net deferred tax asset, which would negatively impact our earnings or increase our net loss.

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

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

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

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

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

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

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

Anti-takeover provisions could negatively impact our shareholders.

Provisions in our articles of incorporation and bylaws, the corporate law of the State of Washington and federal regulations could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our shareholders, or otherwise adversely affect the market price of our common stock. These provisions include: supermajority voting requirements for certain business combinations with any person who beneficially owns 15% or more of our outstanding common stock; limitations on voting by any person holding more than 10% of any class of Riverview equity securities; the election of directors to staggered terms of three years; advance notice requirements for nominations for election to our board of directors and for proposing matters that shareholders may act on at shareholder meetings, a requirement that only directors may fill a vacancy in our board of

directors, supermajority voting requirements to remove any of our directors and the other provisions described under “Certain Anti-Takeover Provisions in Our Articles of Incorporation and Bylaws.” Our articles of incorporation also authorize our board of directors to issue preferred stock, and preferred stock could be issued as a defensive measure in response to a takeover proposal. For further information, see “Description of Capital Stock—Preferred Stock.” In addition, pursuant to OTS regulations, as a general matter, no person or company, acting individually or in concert with others, may acquire more than 10% of our common stock without prior approval from the OTS.

These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for holders of our common stock to elect directors other than the candidates nominated by our board of directors.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The executive offices of the Company are located in downtown Vancouver, Washington at 900 Washington Street. The Company’s operational center, opened in 2006, is also located in Vancouver, Washington (both offices are leased). At March 31, 2010, the Bank had 10 offices located in Clark County (five of which are leased), one office in Cowlitz County, two offices in Klickitat County, and one office in Skamania County. The Bank also had two offices in Multnomah County (one of which is leased), and one office in Marion County. During fiscal year March 31, 2010, the Company sold two of its branches and immediately entered into lease agreements for both locations.

Item 3. Legal Proceedings

Periodically, there have been various claims and lawsuits involving the Company, such as claims to enforce liens, condemnation proceedings on properties in which the Company holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Company’s business. The Company is not a party to any pending legal proceedings that it believes would have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

Item 4. [Removed and Reserved]

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

At March 31, 2010, there were 10,923,773 shares of Company common stock issued and outstanding, 819 stockholders of record and an estimated 1,614 holders in nominee or "street name." Under Washington law, the Company is prohibited from paying a dividend if, as a result of its payment, the Company would be unable to pay its debts as they become due in the normal course of business, or if the Company's total liabilities would exceed its total assets. The principal source of funds for the Company is dividend payments from the Bank. OTS regulations require the Bank to give the OTS 30 days advance notice of any proposed declaration of dividends to the Company, and the OTS has the authority under its supervisory powers to prohibit the payment of dividends to the Company. The OTS imposes certain limitations on the payment of dividends from the Bank to the Company which utilize a three-tiered approach that permits various levels of distributions based primarily upon a savings association's capital level. In addition, the Bank is required to provide notice to and receive the non-objective of the OTS prior to declaring a dividend pursuant to the terms of an MOU See Item 1A, "Risk Factors – We are required to comply with the terms of two memoranda of understanding and a supervisory letter directive issued by the OTS and lack of compliance could result in monetary penalties and /or additional regulatory actions" and Item 1, "Regulation – Federal Regulation of Savings Associations – Limitations on Capital Distributions." In addition, the Company may not declare or pay a cash dividend on its capital stock if the effect thereof would be to reduce the regulatory capital of the Bank below the amount required for the liquidation account established pursuant to the Bank's conversion from the mutual stock form of organization. See Note 1 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

The common stock of the Company is traded on the Nasdaq Global Select Market under the symbol "RVSB". The following table sets forth the high and low trading prices, as reported by Nasdaq, and cash dividends paid for each quarter during 2010 and 2009 fiscal years. At March 31, 2010, there were 21 market makers in the Company's common stock as reported by the Nasdaq Global Select Market.

| Fiscal Year Ended March 31, 2010 | High | Low | Cash Dividends Declared |
|-------------------------------------|---------|---------|-------------------------------|
| Quarter ended March 31, 2010 | \$ 2.94 | \$ 2.21 | \$ - |
| Quarter ended December 31, 2009 | 3.93 | 2.24 | - |
| Quarter ended September 30, 2009 | 4.32 | 2.95 | - |
| Quarter ended June 30, 2009 | 3.90 | 2.63 | - |

| Fiscal Year Ended March 31, 2009 | High | Low | Cash Dividends Declared |
|-------------------------------------|---------|---------|-------------------------------|
| Quarter ended March 31, 2009 | \$ 4.35 | \$ 1.60 | \$ - |
| | 6.10 | 2.25 | - |

Quarter ended December
31, 2008

| | | | |
|-------------------------------------|------|------|-------|
| Quarter ended September 30, 2008 | 7.38 | 4.52 | 0.045 |
| Quarter ended June 30, 2008 | 9.79 | 7.42 | 0.090 |

Stock Repurchase

Shares are repurchased from time-to-time in open market transactions. The timing, volume and price of purchases are made at our discretion, and are also contingent upon our overall financial condition, as well as general market conditions.

On June 21, 2007, the Company announced a stock repurchase program of up to 750,000 shares of its outstanding common stock, representing approximately 6% of outstanding shares at that date. The Company did not repurchase any shares during the year ended March 31, 2010. As of March 31, 2010, there were 125,000 shares that may be repurchased under the program, there is no stated expiration date for the stock repurchase program. Under the Company's MOU the non-objection of the OTS must be received prior to any future stock repurchases.

Securities for Equity Compensation Plans

Please refer to Item 12 in this Form 10-K for a listing of securities authorized for issuance under equity compensation plans.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
 Among Riverview Bancorp, Inc., The S&P 500 Index
 And The NASDAQ Bank Index

| | 3/31/05* | 3/31/06 | 3/31/07 | 3/31/08 | 3/31/09 | 3/31/10 |
|----------------------------|----------|---------|---------|---------|---------|---------|
| Riverview Bancorp, Inc. | 100.00 | 129.69 | 158.81 | 102.81 | 40.62 | 24.14 |
| S & P 500 | 100.00 | 111.73 | 124.95 | 118.60 | 73.43 | 109.97 |
| NASDAQ Bank | 100.00 | 112.19 | 114.77 | 92.96 | 58.25 | 73.97 |

*\$100 invested on 3/31/05 in stock or index-including reinvestment of dividends

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www.researchdatagroup.com/S&P.htm

Item 6. Selected Financial Data

The following condensed consolidated statements of operations and financial condition and selected performance ratios as of March 31, 2010, 2009, 2008, 2007 and 2006 and for the years then ended have been derived from the Company's audited Consolidated Financial Statements. The information below is qualified in its entirety by the detailed information included elsewhere herein and should be read along with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8. "Financial Statement and Supplementary Data" included in this Form 10-K.

| | 2010 | 2009 | At March 31, 2008 | | 2007 | 2006 (1) |
|---|------------|------------|----------------------|------------|------------|----------|
| | | | (In thousands) | | | |
| FINANCIAL CONDITION DATA: | | | | | | |
| Total assets | \$ 837,953 | \$ 914,333 | \$ 886,849 | \$ 820,348 | \$ 763,847 | |
| Loans receivable, net | 712,837 | 784,117 | 756,538 | 682,951 | 623,016 | |
| Loans held for sale | 255 | 1,332 | - | - | 65 | |
| Mortgage-backed securities held to maturity | 259 | 570 | 885 | 1,232 | 1,805 | |
| Mortgage-backed securities available for sale | 2,828 | 4,066 | 5,338 | 6,640 | 8,134 | |
| Cash and interest-bearing deposits | 13,587 | 19,199 | 36,439 | 31,423 | 31,346 | |
| Investment securities held to maturity | 517 | 529 | - | - | - | |
| Investment securities available for sale | 6,802 | 8,490 | 7,487 | 19,267 | 24,022 | |
| Deposit accounts | 688,048 | 670,066 | 667,000 | 665,405 | 606,964 | |
| FHLB advances | 23,000 | 37,850 | 92,850 | 35,050 | 46,100 | |
| Federal Reserve Bank advances | 10,000 | 85,000 | - | - | - | |
| Shareholders' equity | 83,934 | 88,663 | 92,585 | 100,209 | 91,687 | |

| | Year Ended March 31, | | | | |
|--|---|------|------|------|----------|
| | 2010 | 2009 | 2008 | 2007 | 2006 (1) |
| | (Dollars in thousands, except per share data) | | | | |

OPERATING DATA:

| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Interest income | \$ 46,262 | \$ 52,850 | \$ 60,682 | \$ 61,300 | \$ 47,229 |
| Interest expense | 11,376 | 19,183 | 25,730 | 24,782 | 14,877 |
| Net interest income | 34,886 | 33,667 | 34,952 | 36,518 | 32,352 |
| Provision for loan losses | 15,900 | 16,150 | 2,900 | 1,425 | 1,500 |
| Net interest income after provision for loan losses | 18,986 | 17,517 | 32,052 | 35,093 | 30,852 |
| Gains from sale of loans, securities and real estate owned | 1,032 | 729 | 368 | 434 | 382 |
| Impairment on investment security | (1,003) | (3,414) | - | - | - |
| Other non-interest income | 7,237 | 8,215 | 8,514 | 8,600 | 8,455 |
| Non-interest expenses | 34,973 | 27,259 | 27,791 | 26,353 | 25,374 |
| Income (loss) before income taxes | (8,721) | (4,212) | 13,143 | 17,774 | 14,315 |
| Provision (benefit) for income taxes | (3,277) | (1,562) | 4,499 | 6,168 | 4,577 |

| | 2010 | At or For the Year Ended March 31, | | | 2006 (1) |
|---|---------|------------------------------------|--------|--------|----------|
| | | 2009 | 2008 | 2007 | |
| KEY FINANCIAL RATIOS: | | | | | |
| Performance Ratios: | | | | | |
| Return on average assets | (0.62)% | (0.29)% | 1.04% | 1.43% | 1.36% |
| Return on average equity | (6.00) | (2.85) | 8.92 | 11.88 | 10.95 |
| Dividend payout ratio (2) | - | (54.00) | 53.16 | 38.35 | 39.08 |
| Interest rate spread | 4.19 | 3.73 | 4.09 | 4.37 | 4.55 |
| Net interest margin | 4.39 | 4.08 | 4.66 | 5.01 | 5.03 |
| Non-interest expense to average assets | 3.97 | 3.02 | 3.34 | 3.24 | 3.54 |
| Efficiency ratio (3) | 82.97 | 69.50 | 63.40 | 57.85 | 61.60 |
| Asset Quality Ratios: | | | | | |
| Average interest-earning assets to interest-bearing liabilities | 114.21 | 114.85 | 116.75 | 118.96 | 121.14 |
| Allowance for loan losses to total net loans at end of period | 2.95 | 2.12 | 1.39 | 1.25 | 1.15 |
| Net charge-offs to average outstanding loans during the period | 1.48 | 1.24 | 0.12 | - | 0.10 |
| Ratio of nonperforming assets to total assets | 5.89 | 4.57 | 0.92 | 0.03 | 0.05 |
| Capital Ratios: | | | | | |
| Average equity to average assets | 10.29 | 10.29 | 11.65 | 12.01 | 12.39 |
| Equity to assets at end of fiscal year | 10.02 | 9.70 | 10.44 | 12.22 | 12.00 |

(1) On April 22, 2005, the Company acquired American Pacific Bank

(2) Dividends per share divided by earnings (loss) per share

(3) Non-interest expense divided by the sum of net interest income and non-interest income

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the Consolidated Financial Statements and accompanying Notes thereto contained in Item 8 of this Form 10-K and the other sections contained in this Form 10-K.

Critical Accounting Policies

The Company has established various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of the Company's Consolidated Financial Statements. The Company has identified three policies, that due to judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's Consolidated Financial Statements. These policies relate to the methodology for the determination of the allowance for loan losses, the valuation of investment securities, the valuation of real estate owned ("REO"), and foreclosed assets, goodwill valuation and the calculation of income taxes. These policies and the judgments, estimates and assumptions are described in greater detail in subsequent sections of Management's Discussions and Analysis contained herein and in the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K. In particular, Note 1 of the Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies," describes generally the Company's accounting policies. Management believes that the judgments, estimates and assumptions used in the preparation of the Company's Consolidated Financial Statements are appropriate given the factual circumstances at the time. However, given the sensitivity of the Company's Consolidated Financial Statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in the Company's results of operations or financial condition.

Allowance for Loan Losses

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

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 Bank has no recourse to the borrower, or if it does, the borrower has insufficient assets to pay the debt; 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.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts (principal and interest) due according to the contractual terms of the loan agreement. Large groups of smaller balance homogenous loans such as consumer secured loans, residential mortgage loans and consumer unsecured loans are collectively evaluated for potential loss. Impaired loans are generally carried at the lower of cost or fair value, which are determined by management based upon a number of factors, including recent independent appraisals which are further reduced for estimated selling costs or as a practical expedient by estimating the present value of expected future cash flows, discounted at the loan's effective interest rate. When the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest,

net deferred loan fees or costs, and unamortized premium or discount), impairment is recognized by creating or adjusting an allocation of the allowance for loan losses.

Investment Valuation

Investment securities are classified as held to maturity when the Company has the ability and positive intent to hold such securities to maturity. Investment securities held to maturity are carried at amortized cost. Unrealized losses due to fluctuations in fair value are recognized when it is determined that a credit related other than temporary decline in value has occurred. Investment securities bought and held principally for the purpose of sale in the near term are classified as trading securities. Securities that the Company intends to hold for an indefinite period, but not necessarily to maturity are classified as available for sale. Securities available for sale are reported at fair value. Unrealized gains and losses, net of the related deferred tax effect, are reported as a net amount in a separate component of shareholders' equity entitled "accumulated other comprehensive income (loss)." Realized gains and losses on securities available for sale, determined using the specific identification method, are included in earnings. Premiums and discounts are amortized using the interest method over the period to maturity or expected call, if sooner.

Unrealized losses on available for sale and held to maturity securities are evaluated at least quarterly to determine whether the declines in value should be considered other than temporary. OTTI is separated into a credit and noncredit component. Noncredit component losses are recorded in other comprehensive income (loss) when the Company a) does not intend to sell the security or b) is not more likely than not to have to sell the security prior to the security's anticipated recovery. Credit component losses are reported through earnings. To determine the component of OTTI related to credit losses, the Company compares the amortized cost basis of the OTTI security to the present value of the revised expected cash flows, discounted using the current pre-impairment yield. Significant judgment of management is required in this analysis that includes, but is not limited to, assumptions regarding the ultimate collectibility of principal and interest on the underlying collateral.

Although the determination of whether an impairment is other-than-temporary involves significant judgment, the underlying principle used is based on positive evidence indicating that an investment's carrying value is recoverable within a reasonable period of time outweighs negative evidence to the contrary. Evidence that is objectively determinable and verifiable is given greater weight than evidence that is subjective and or not verifiable. Evidence based on future events will generally be less objective as it is based on future expectations and therefore is generally less verifiable or not verifiable at all. Factors considered in evaluating whether a decline in value is other-than-temporary include, (a) the length of time and the extent to which the fair value has been less than amortized cost, (b) the financial condition and near-term prospects of the issuer and (c) the Company's intent and ability to retain the investment for a period of time. Other factors that may be considered include the ratings by recognized rating agencies; capital strength and other near-term prospects of the issuer and recommendation of investment advisors or market analysts. In situations in which the security's fair value is below amortized cost but it continues to be probable that all contractual terms of the security will be satisfied, the decline is solely attributable to noncredit factors, and the Company asserts that it has positive intent and ability to hold that security to maturity, no other-than-temporary impairment is recognized.

Valuation of REO and Foreclosed Assets

Real estate properties acquired through foreclosure or by deed-in-lieu of foreclosure are recorded at the lower of cost or fair value less estimated costs to sell. Fair value is generally determined by management based on a number of factors, including third-party appraisals of fair value in an orderly sale. Accordingly, the valuation of REO is subject to significant external and internal judgment. Any differences between management's assessment of fair value, less estimated costs to sell, and the carrying value of the loan at the date a particular property is transferred into REO are charged to the allowance for loan losses. Management periodically reviews REO values to determine whether the property continues to be carried at the lower of its recorded book value or fair value, net of estimated costs to sell. Any further decreases in the value of REO are considered valuation adjustments and trigger a corresponding charge to non-interest expense in the Consolidated Statements of Operations. Expenses from the maintenance and operations of

REO are included in other non-interest expense.

Goodwill Valuation

Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is presumed to have an indefinite useful life and is tested, at least annually, for impairment at the reporting unit level. The Company has one reporting unit, the Bank, for purposes of computing goodwill. All of the Company's goodwill has been allocated to this single reporting unit. The Company performs an annual review in the third quarter of each year, or more frequently if indications of potential impairment exist, to determine if the recorded goodwill is impaired. If the fair value exceeds the carrying value, goodwill at the reporting unit level is not considered impaired and no additional analysis is necessary. If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist and additional analysis must be performed to measure the

amount of impairment loss, if any. The amount of impairment is determined by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the goodwill in the same manner as if the reporting unit was being acquired in a business combination. Specifically, the Company would allocate the fair value to all of the assets and liabilities of the reporting unit, including unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, the Company would record an impairment charge for the difference.

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

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

Income taxes

The Company estimates tax expense based on the amount it expects to owe various tax authorities. Accrued taxes represent the net estimated amount due or to be received from taxing authorities. In estimating accrued taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial and regulatory guidance in the context of our tax position. For additional information see Note 1 and Note 14 of the Notes to the Consolidated Financial Statements in Item 8 of this Form 10-K.

Operating Strategy

Fiscal year 2010 marked the 87th anniversary since the Bank began operations in 1923. The historical emphasis had been on residential real estate lending. Since 1998, however, the Company has been diversifying its loan portfolio through the expansion of its commercial and construction loan portfolios. At March 31, 2010, commercial and construction loans represented 87.6% of total loans. Commercial lending including commercial real estate has higher credit risk, greater interest margins and shorter terms than residential lending which can increase the loan portfolio's profitability.

The primary business strategy of the Company is to provide comprehensive banking and related financial services within its local communities. The Company's growing commercial customer base has enjoyed new products and the improvements in existing products. These new products include business checking, internet banking, remote deposit capture, expanded cash management services, bankcard merchant services, CDARS deposit offerings and new loan products. Retail customers have benefited from expanded choices ranging from additional automated teller machines, consumer lending products, checking accounts, debit cards, 24 hour account information service and internet banking.

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

The Company's goal is to deliver returns to shareholders by managing problem assets, increasing higher-yielding assets (in particular commercial real estate and commercial loans), increasing core deposit balances, reducing expenses, hiring

experienced employees with a commercial lending focus and exploring opportunistic acquisitions. The Company seeks to achieve these results by focusing on the following objectives:

Focusing on Asset Quality. The Company is focused on monitoring existing performing loans, resolving nonperforming loans and selling foreclosed assets. The Company has aggressively sought to reduce its level of nonperforming assets through write-downs, collections, modifications and sales of nonperforming loans and real estate owned. The Company has taken proactive steps to resolve its nonperforming loans, including negotiating repayment plans, forbearances, loan modifications and loan extensions with borrowers when appropriate, and accepting short payoffs on delinquent loans, particularly when such payoffs result in a smaller loss than foreclosure. The Company also have added experienced personnel to the department that monitors loans to enable the Company to better identify problem loans in a timely manner and reduce its exposure to a further deterioration in asset quality. Beginning in 2008, in connection with the downturn in real estate markets, the Company applied more conservative and stringent underwriting practices to new loans, including, among other things, increasing the amount of required collateral or equity requirements, reducing loan-to-value ratios and increasing debt service coverage ratios. Although nonperforming assets increased from \$41.7 million at March 31, 2009 to \$49.3 million at March 31, 2010, the Company has continued to reduce its exposure to land development and speculative construction loans which represented \$23.9 million or 66% of its nonperforming loans at March 31, 2010. The total land development and speculative construction loan portfolios declined to \$105.4 million compared to \$149.6 million a year ago

Improving Earnings by Expanding Product Offerings. The Company intends to prudently increase the percentage of its assets consisting of higher-yielding commercial real estate and commercial loans, which offer higher risk-adjusted returns, shorter maturities and more sensitivity to interest rate fluctuations. The Company also intends to selectively add additional products to further diversify revenue sources and to capture more of each customer's banking relationship by cross selling loan and deposit products and additional services to Bank customers, including services provided through RAMCorp to increase its fee income. Assets under management by RAMCorp. totaled \$279.5 million at March 31, 2010. In December 2008, the Company began operating as a merchant bankcard "agent bank" facilitating credit and debit card transactions for business customers through an outside merchant bankcard processor. This allows the Company to underwrite and approve merchant bankcard applications and retain interchange income that, under its previous status as a "referral bank", was earned by a third party.

Attracting Core Deposits and Other Deposit Products. The Company's strategic focus is to emphasize total relationship banking with its customers to internally fund its loan growth. The Company is also focused on reducing its reliance on other wholesale funding sources, including Federal Home Loan Bank of Seattle and Federal Reserve Bank of San Francisco advances, through the continued growth of core customer deposits. The Company believes that a continued focus on customer relationships will help to increase the level of core deposits and locally-based retail certificates of deposit. In addition to its retail branches, the Company maintains state of the art technology-based products, such as on-line personal financial management, business cash management, and business remote deposit products, that enable it to compete effectively with banks of all sizes. The Company recently increased its emphasis on enhancing its cash management product line with the hiring of an experienced cash management officer. The formation of a team consisting of this cash management officer and existing employees is expected to lead to an improved cash management product line for commercial customers. Branch deposits have increased from \$603.2 million at March 31, 2009 to \$654.5 million at March 31, 2010. Advances from the Federal Home Loan Bank of Seattle and Federal Reserve Bank of San Francisco have decreased from \$122.9 million at March 31, 2009 to \$33.0 million at March 31, 2010.

Continued Expense Control. Beginning in fiscal 2009 and continuing into fiscal 2010, management has undertaken several initiatives to reduce non-interest expense and will continue to make it a priority to identify cost savings opportunities throughout all phases of the Company's operations. Beginning in fiscal 2009, the Company instituted expense control measures such as reducing many marketing expenses, cancelling certain projects and capital purchases, and reducing travel and entertainment expenditures. The Company also reduced its full-time equivalent

employees from 247 at March 31, 2009 to 233 at March 31, 2010. During October 2009, a branch and a loan origination office, were closed as a result of their failure to meet required growth standards. As a result of the reduction in personnel and closure of the offices the Company will save approximately \$1.3 million per year.

Recruiting and Retaining Highly Competent Personnel With a Focus on Commercial Lending. The Companys ability to continue to attract and retain banking professionals with strong community relationships and significant knowledge of its markets will be a key to its success. The Company believes that it enhances its market position and adds profitable growth opportunities by focusing on hiring and retaining experienced bankers focused on owner occupied commercial real estate and commercial lending, and the deposit balances that accompany these relationships. The Company emphasizes to its employees the importance of delivering exemplary customer service and seeking opportunities to build further relationships

with its customers. The goal is to compete with other financial service providers by relying on the strength of the Company's customer service and relationship banking approach. The Company believes that one of its strengths is that its employees are also significant shareholders through the Company's employee stock ownership (ESOP) and 401(k) plans. The Company also offers an incentive system that is designed to reward well-balanced and high quality growth amongst its employees.

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

Comparison of Financial Condition at March 31, 2010 and 2009

At March 31, 2010, the Company had total assets of \$838.0 million compared with \$914.3 million at March 31, 2009. The decrease in total assets was part of the Company's strategic plan to reduce its balance sheet through the reduction in the balance of loans receivable to increase the Company's capital and liquidity positions.

Cash, including interest-earning accounts, totaled \$13.6 million at March 31, 2010, compared to \$19.2 million at March 31, 2009. The \$5.6 million decrease was primarily attributable to a decrease in cash balances maintained at the FRB as a result of the Company's effort to reduce secured borrowings.

Investment securities available-for-sale totaled \$6.8 million at March 31, 2010, compared to \$8.5 million at March 31, 2009. The \$1.7 million decrease was attributable to called, maturities, scheduled cash flows, principal paydowns and an impairment charge. During the fiscal year ended March 31, 2010, the Company recognized a non-cash OTTI charge on an investment security of \$1.0 million compared to \$3.4 million in the prior fiscal year. The investment security is a trust preferred pooled security with a fair market value of \$1.0 million secured by trust securities and the underlying debentures issued by bank holding companies. For additional information on our Level 3 fair value measurements see "-Fair Value of Level 3 Assets".

Mortgage-backed securities available-for-sale totaled \$2.8 million at March 31, 2010, compared to \$4.1 million at March 31, 2009. The \$1.2 million decrease was a result of repayments. The Company does not believe it has any exposure to sub-prime mortgage-backed securities.

Loans receivable, net, was \$712.8 million at March 31, 2010, compared to \$784.1 million at March 31, 2009, a 9.1% decrease due primarily to the Company's planned balance sheet restructuring strategy, which includes reducing the loan portfolio to preserve capital and liquidity. This reduction was accomplished primarily through a decrease in the land acquisition and development and residential construction loan portfolios, which were reduced \$55.7 million since March 31, 2009. The Company also reduced the balances in the commercial construction and commercial business loan portfolios during the year. The decline in the loan portfolio was a result of a combination of loan payoffs, principal repayments, a reduced emphasis on lending in certain sectors of the loan portfolio, transfer of loans to REO and loan charge-offs. A substantial portion of the loan portfolio is secured by real estate, either as primary or secondary collateral, located in the Company's primary market area. Risks associated with loans secured by real estate include decreasing land and property values, material increases in interest rates, deterioration in local economic conditions, tightening credit or refinancing markets, and a concentration of loans within any one area. The Company

has no option ARM, teaser, or sub-prime residential real estate loans in its portfolio.

Prepaid expenses and other assets were \$7.9 million at March 31, 2010 compared to \$2.5 million at March 31, 2009. The increase was primarily due to \$4.7 million in payments made to the FDIC for the Bank's estimated prepayment of FDIC insurance assessments for the calendar years 2010, 2011 and 2012 that is included in prepaid expenses at March 31, 2010.

Goodwill was \$25.6 million at March 31, 2010 and 2009. The Company performed its annual goodwill impairment test during the third quarter ended December 31, 2009. The results of these tests indicated that the Company's goodwill was not impaired. For additional information on our goodwill impairment testing, see "Goodwill Valuation" included in this Item 7.

Deposit accounts totaled \$688.0 million at March 31, 2010 compared to \$670.1 million at March 31, 2009. Customer branch deposits balances increased \$51.3 million at March 31, 2010 compared to the prior year. This growth was attributable to gains in both new relationships and the deepening of existing customer relationships. The continued low interest rates have resulted in customers placing their deposits into money market accounts and certificates of deposit, which earn the highest interest rate yields. Money market and certificate of deposit accounts increased \$31.1 million and \$14.0 million, respectively at March 31, 2010 compared to March 31, 2009. At March 31, 2010, checking accounts totaled \$154.6 million, or 22.5% of total deposits. Core branch deposits (comprised of all demand, savings and interest checking accounts, plus all time deposits and excludes wholesale-brokered deposits, Trust account deposits, Interest on Lawyer Trust Accounts (“IOLTA”), public funds and Internet-based deposits) account for 94.8% of total deposits at March 31, 2010, compared to 90.0% at March 31, 2009. At March 31, 2010, there were no brokered deposits (exclusive of CDARS deposits), compared to \$19.9 million, or 2.9% of total deposits, at March 31, 2009. The Company plans to continue its focus on the growth of customer branch deposits and on building customer relationships as opposed to obtaining brokered deposits.

FHLB advances decreased to \$23.0 million at March 31, 2010 as compared to \$37.9 million at March 31, 2009. During the first three quarters of fiscal year 2010, the Company utilized the FRB for its borrowings. The decision to shift the Company’s borrowings to the FRB was a result of the lower cost of FRB borrowings as compared to those from the FHLB for the first three quarters of fiscal year 2010. During the fourth quarter of fiscal year 2010, the Company began to utilize the FHLB for its advances due to the increase in the FRB discount rate on February 17, 2010. FRB borrowings totaled \$10.0 million at March 31, 2010, compared to \$85.0 million at March 31, 2009. Overall borrowings decreased \$89.9 million to \$33.0 million at March 31, 2010 compared to \$122.9 million at March 31, 2009, as a result of the increase in deposits and the planned reduction in the loan portfolio.

Shareholders' equity decreased \$4.7 million to \$83.9 million at March 31, 2010 from \$88.7 million at March 31, 2009. The decrease in equity resulted from a net loss of \$5.4 million for the year ended March 31, 2010. The decrease was partially offset by earned ESOP shares, the net tax effect on securities and noncontrolling interest of \$771,000.

Goodwill Valuation

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

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

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

characteristics of the reporting unit. The Company validates its estimated fair value by comparing the fair value estimates using the income approach to the fair value estimates using the market approach.

The Company performed its annual goodwill impairment test during the quarter-ended December 31, 2009. As part of its process for performing the step one impairment test of goodwill, the Company estimated the fair value of the reporting unit utilizing the allocation of corporate value approach, the income approach and the market approach in order to derive an enterprise value of the Company. The allocation of corporate value approach applies the aggregate market value of the Company and divides it among the reporting units. A key assumption in this approach is the control premium applied to the aggregate market value. A control premium is utilized as the value of a company from the perspective of a controlling interest is generally higher than the widely quoted market price per share. The Company used an expected control premium of 30%, which was based on comparable transactional history. Assumptions used by the Company in its discounted cash flow model (income approach) included an annual revenue growth rate that approximated 5%, a net interest margin that approximated 4.5% and a return on assets that ranged from 0.14% to 1.09% (average of 0.74%). In addition to utilizing the above projections of estimated operating results, key assumptions used to determine the fair value estimate under the income approach was the discount rate of 14.4% utilized for our cash flow estimates and a terminal value estimated at 0.8 times the ending book value of the reporting unit. The Company used a build-up approach in developing the discount rate that included: an assessment of the risk free interest rate, the rate of return expected from publicly traded stocks, the industry the Company operates in and the size of the Company. In applying the market approach method, the Company selected eight publicly traded comparable institutions based on a variety of financial metrics (tangible equity, leverage ratio, return on assets, return on equity, net interest margin, nonperforming assets, net charge-offs, and reserves for loan losses) and other relevant qualitative factors (geographical location, lines of business, business model, risk profile, availability of financial information, etc.) After selecting comparable institutions, the Company derived the fair value of the reporting unit by completing a comparative analysis of the relationship between their financial metrics listed above and their market values utilizing various market multiples. The Company calculated a fair value of its reporting unit of \$57 million using the corporate value approach, \$66 million using the income approach and \$68 million using the market approach. Based on the results of the step one impairment analysis, the Company determined the second step must be performed.

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

An interim impairment test was not deemed necessary as of March 31, 2010, due to there not being a significant change in the reporting unit's assets and liabilities, the amount that the fair value of the reporting unit exceeded the carrying value as of the most recent valuation, and because the Company determined that, based on an analysis of events that have occurred and circumstances that have changed since the most recent valuation date, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is remote.

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

financial industry may result in a future impairment charge.

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

Fair Value of Level 3 Assets

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

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

At March 31, 2010, the market for the Company's single trust preferred pooled security was determined to be inactive in management's judgment. This determination was made by the Company after considering the last known trade date for this specific security, the low number of transactions for similar types of securities, the low number of new issuances for similar securities, the significant increase in the implied liquidity risk premium for similar securities, the lack of information that is released publicly and discussions with third-party industry analysts. Due to the inactivity in the market, observable market data was not readily available for all significant inputs for this security. Accordingly, the trust preferred pooled security was classified as Level 3 in the fair value hierarchy. The Company utilized observable inputs where available, unobservable data and modeled the cash flows adjusted by an appropriate liquidity and credit risk adjusted discount rate using an income approach valuation technique in order to measure the fair value of the security. Significant unobservable inputs were used that reflect our assumptions of what a market participant would use to price the security. Significant unobservable inputs included selecting an appropriate discount rate, default rate and repayment assumptions. In selecting its assumptions, the Company considered the current rates for similarly rated corporate securities, market liquidity, the individual issuer's financial conditions, historical repayment information, and future expectations of the capital markets. The reasonableness of the fair value, and classification as a Level 3 asset, was validated through comparison of fair value as determined by two independent third-party pricing services.

Certain loans included in the loan portfolio were deemed impaired at March 31, 2010. Accordingly, loans measured for impairment were classified as Level 3 in the fair value hierarchy as there is no active market for these loans. Measuring impairment of a loan requires judgment and estimates, and the eventual outcomes may differ from those estimates. Impairment was measured based on a number of factors, including recent independent appraisals which are further reduced for estimated selling costs or as a practical expedient by estimating the present value of expected future cash flows, discounted at the loan's effective interest rate.

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

For additional information on our Level 1, 2 and 3 fair value measurements see Note 19 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

Comparison of Operating Results for the Years Ended March 31, 2010 and 2009

Net Income or Loss. Our net loss was \$5.4 million, or \$0.51 per diluted earning share for the year ended March 31, 2010, compared to a net loss of \$2.7 million, or \$0.25 per diluted share for the year ended March 31, 2009. The decrease in earnings reflects the current economic recession, ongoing strains in the financial and housing markets and further deterioration in property values. These conditions resulted in an increase in the provision for loan losses, an increase in FDIC insurance premiums and an increase in cost associated with REO properties.

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

Net interest income for fiscal year 2010 was \$34.9 million, representing a \$1.2 million, or a 3.6% increase, from \$33.7 million in fiscal year 2009. The net interest margin for the fiscal year ended March 31, 2010 was 4.39% compared to 4.08% for the same prior year period. The Company's net interest margin has increased for the last five consecutive quarters. This increase was primarily the result of a decrease in the Company's deposit and borrowing costs.

The ratio of average interest-earning assets to average interest-bearing liabilities decreased to 114.21% for the fiscal year ended March 31, 2010 compared to 114.85% for the fiscal year ended March 31, 2009, which indicates that the interest-earning asset growth was being funded more by interest-bearing liabilities as compared to capital and non-interest-bearing demand deposits. Generally, the Company's balance sheet interest rate sensitivity achieves better net interest rate margins in a stable or increasing interest rate environment due to the balance sheet being slightly asset interest rate sensitive. However, due to a number of loans in the loan portfolio with interest rate floors, net interest income will be negatively impacted in a rising interest rate environment until such time as the current rate exceeds these interest rate floors. In a decreasing interest rate environment, it takes time to reduce deposit interest rates to recover the decline in the net interest rate margin. Interest rates on the Company's interest-earning assets reprice downward more rapidly than interest rates on the Company's interest-bearing liabilities. As a result of the Federal Reserve's monetary policy actions beginning in September 2007 to aggressively lower short-term federal funds rates, approximately 36% of the Company's loans were immediately repriced down. The Company also immediately reduced the interest rate paid on certain interest-bearing deposits. During the year ended March 31, 2010, the Company made further progress in reducing its deposit and borrowing costs resulting in improved net interest margin. Further reductions will be reflected in future deposit offering rates and as existing long term deposits renew upon maturity. The amount and timing of these reductions is dependent on competitive pricing pressures, the relationship of short term and long term interest rates and changes in interest rate spreads.

Interest Income. Interest income was \$46.3 million for the fiscal year ended March 31, 2010 compared to \$52.9 million, for the fiscal year ended March 31, 2009. The 12.5% decrease in interest income was due to the continued low level of interest rates, a decrease in the average balance of loans receivable and the continued low interest rates on short-term federal funds. The yield on interest-earning assets was 5.82% for fiscal year 2010 compared to 6.39% for fiscal year 2009. During the year ended March 31, 2010 and 2009, the Company reversed \$757,000 and \$854,000, respectively, of interest income on nonperforming loans. Average interest-bearing assets decreased \$31.6 million to \$796.2 million for fiscal year 2010 from \$827.7 million for fiscal year 2009. The decrease in average loan balances was due to the Company's recent efforts to realign its balance sheet and reduce its overall loans receivable as part of the Company's capital and liquidity strategy. Other interest and dividend income decreased \$132,000 to \$80,000 for fiscal year 2010 compared to \$212,000 for fiscal year 2009. This decrease was primarily due to a reduction in the yield on daily interest-bearing assets to 0.10% for fiscal year 2010 compared to 1.17% for fiscal year 2009. The decrease in the yield for such assets was primarily due to lower interest rates during the year resulting from the Federal Reserve interest rate cuts described above.

Interest Expense. Interest expense for the fiscal year ended March 31, 2010 totaled \$11.4 million, a \$7.8 million or 40.70% decrease from \$19.2 million for the fiscal year ended March 31, 2009. The decrease in interest expense was the result of declining deposit and borrowing costs attributable to the continued low interest rate environment. The Company has continued to lower its deposit costs throughout the year on many of its deposit products. The weighted average interest rate on interest-bearing deposits decreased from 2.68% for the year ended March 31, 2009 to 1.67% for the year ended March 31, 2010. The weighted average interest rate of FHLB borrowings decreased from 1.99% for the year ended March 31, 2009 to 1.07% for the year ended March 31, 2010. During fiscal year 2010, the Company primarily utilized the FRB for its borrowing needs, allowing it to take advantage of borrowings that averaged 0.28% for fiscal year 2010. The weighted average cost of FHLB and FRB borrowings, junior subordinated debenture and capital lease obligations decreased to 1.47% for the year ended March 31, 2010 from 2.59% for the prior year.

Provision for Loan Losses. The provision for loan losses for fiscal year 2010 was \$15.9 million, compared to \$16.2 million for the same period in the prior year. The provision for loan losses continues to reflect the high level of classified loans, delinquencies, nonperforming loans and net charge-offs. The conditions are primarily the result of the current economic conditions and slowdown in residential real estate sales that affected among others, homebuilders and developers. A slowdown in home buying has resulted in slower sales and declining real estate values which have significantly affected these borrowers liquidity and ability to repay loans. Recent appraisals received by the Company have reflected the significant declines in real estate values, especially on land development projects. Nonperforming loans generally reflect unique operating difficulties for the individual borrower; however, more recently the deterioration in the general economy has become a significant contributing factor to the increased levels of delinquencies and nonperforming loans. The Company's problem loans continue to be concentrated in land acquisition and development loans.

Net charge-offs for the year ended March 31, 2010 were \$11.2 million, compared to \$9.9 million for the same period last year. The increase in net charge-offs was primarily attributable to the charge-off of land and lot loans totaling \$4.0 million, speculative construction loans totaling \$3.5 million and commercial loans totaling \$2.5 million for the year ended March 31, 2010. Net charge-offs to average net loans for the year ended March 31, 2010 were 1.48%, compared to 1.24% for the same period last year. Nonperforming loans increased to \$36.0 million at March 31, 2010 compared to \$27.6 million at March 31, 2009. The ratio of allowance for loan losses and unfunded loan commitments to total net loans was 2.97% at March 31, 2010, compared to 2.15% at March 31, 2009. The allowance as a percentage of nonperforming loans remained relatively unchanged at 60.1% at March 31, 2010, compared to 61.6% at March 31, 2009. This ratio remained stable despite the increase in nonperforming loans as the Company continued to increase its allowance for loan losses during fiscal year 2010.

Impaired loans are subjected to an impairment analysis to determine an appropriate reserve amount to be held against each loan. As of March 31, 2010, the Company had identified \$37.8 million of impaired loans. Because the significant majority of our impaired loans are collateral dependent, nearly all of our specific allowances are calculated based on the fair value of the collateral. Of those impaired loans, \$7.7 million have no specific valuation allowance as their estimated collateral value is equal to or exceeds the carrying costs which in some cases is the result of previous loan charge-offs. The remaining \$30.1 million have specific valuation allowances totaling \$8.0 million. 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, 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 risk factors increase or decrease from quarter to quarter. At March 31, 2010, management's analysis placed greater emphasis on the Company's construction and land acquisition and development loan portfolios and the effect of various factors such as geographic and loan type concentrations. The Company also considered the effects of declining home values and slower home sales. Based on its comprehensive analysis, management deemed the allowance for loan losses of \$21.6 million at March 31, 2010 (2.95% of total loans and 60.1% of nonperforming loans) adequate to cover probable losses inherent in the loan portfolio.

Non-Interest Income. Non-interest income increased \$1.7 million to \$7.3 million for the year ended March 31, 2010 from \$5.5 million for the same period in 2009. The increase in non-interest income was primarily due to a \$1.0 million OTTI charge on a trust preferred security taken during for the year ended March 31, 2010 compared to a \$3.4 million OTTI charge on the same security during the year ended March 31, 2009. Gain on sale of loans held for sale increased \$158,000 for the year ended March 31, 2010 compared to the same period in prior year. The increase was due to the increase in refinance activity the Company experienced in the first half of fiscal 2010 as homeowners took advantage of the historically low interest rates. These increases were partially offset by decreases in mortgage broker income and asset management fees. For the year ended March 31, 2010, broker loan fees decreased by \$134,000 compared to the year ended March 31, 2009 primarily as a result the slowdown in real estate loan sales. Asset management fees decreased \$192,000 for the year ended March 31, 2010 compared to the same prior year period. The decrease in asset management fees was a result of the decrease in average assets under management of RAMCorp., which totaled \$306.6 million at March 31, 2009 compared to \$278.8 million at March 31, 2010. Most recently, assets under management have begun to recover and increase due to the recovery experienced in the financial markets. Total assets under management totaled \$279.5 million at March 31, 2010 compared to \$276.6 million at March 31, 2009.

Non-Interest Expense. Non-interest expense increased \$7.7 million to \$35.0 million for fiscal year ended March 31, 2010 compared to \$27.3 million for fiscal year ended March 31, 2009. Despite the increase in non-controllable expenses such as REO related costs and FDIC insurance premiums, management continues to focus on managing controllable costs as the Company proactively adjusts to lower levels of real estate lending activity. The Company has reduced the number of full-time equivalent employees from 247 at March 31, 2009 to 233 at March 31, 2010. The Company also closed its downtown Portland branch and its loan production office in Clackamas, Oregon, both of

which failed to meet required growth standards and experienced low transaction volume. Despite these reductions, salary and employee benefits increased slightly as a result of lower loan production volumes causing deferred loan origination costs to decline.

The principal component of the increase in the Company's non-interest expense was the increases in REO related expenses. REO related expenses (which includes operating costs, write-downs, and losses on the disposition of property) increased \$6.1 million for the year ended March 31, 2010 compared to the same prior year period. In addition, the increase can also be attributable to an increase in professional fees of \$207,000 from the year ended March 31, 2010 due primarily to legal fees

related to problem assets, including REO. REO related expense will remain elevated compared to historical levels due to increased levels of REO activity compared to previous years.

The Company's FDIC deposit insurance premiums were \$1.9 million for the year ended March 31, 2010, compared to \$760,000 for same prior year period. The increase in FDIC insurance premiums was a result of a FDIC special assessment during the first fiscal quarter of 2010 of \$417,000 in addition to an industry wide increase in FDIC insurance premiums.

Income Taxes. The benefit for income taxes was \$3.3 million for the year ended March 31, 2010 compared to \$1.6 million for the year ended March 31, 2009. The benefit for income taxes was a result of the pre-tax losses incurred for the years ended March 31, 2010 and 2009, respectively. The effective tax rate for fiscal year 2010 was 37.6% compared to 37.1% for fiscal year 2009. When the Company incurs a pre-tax loss, its effective tax rate is higher than the statutory tax rate primarily as a result of non-taxable income generated from investments in bank owned life insurance and tax-exempt municipal bonds. The increase from prior year was the result of the increase in pre-tax loss for the year ended March 31, 2010 compared to March 31, 2009. Reference is made to Note 14 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K, for further discussion of the Company's income taxes.

Comparison of Operating Results for the Years Ended March 31, 2009 and 2008

Net Income or Loss. Net loss was \$2.7 million, or \$0.25 per diluted share for the year ended March 31, 2009, compared to \$8.6 million, or \$0.79 per diluted share for the year ended March 31, 2008. The decrease was primarily due to a decrease in net interest income, an increase in the provision for loan losses and a \$3.4 million OTTI charge related to a trust preferred security held by the Company.

Net Interest Income. Net interest income for fiscal year 2009 was \$33.7 million, representing a \$1.3 million, or a 3.7% decrease, from \$35.0 million in fiscal year 2008. The ratio of average interest earning assets to average interest bearing liabilities decreased to 114.85% in fiscal year 2009 from 116.75% in fiscal year 2008. The decrease was a result of the repricing of assets and liabilities due to the Federal Reserve's decrease in interest rates.

Interest Income. Interest income was \$52.9 million for the fiscal year ended March 31, 2009 compared to \$60.7 million for the fiscal year ended March 31, 2008. Decreased interest income was the result of Federal Reserve rate cuts and interest income reversals on non-performing loans. Average interest-bearing assets increased \$76.7 million to \$827.7 million for fiscal 2009 from \$751.0 million for fiscal year 2008. The yield on interest-earning assets was 6.39% for fiscal year 2009 compared to 8.09% for fiscal year 2008.

Interest Expense. Interest expense for the fiscal year ended March 31, 2009 totaled \$19.2 million, a \$6.5 million or 25.4% decrease from \$25.7 million for the fiscal year ended March 31, 2008. The decrease in interest expense is the result of lower rates of interest paid on deposits and borrowings as a result of the Federal Reserve interest rate cuts described above. The weighted average interest rate of interest-bearing deposits decreased from 3.86% for the year ended March 31, 2008 to 2.68% for the year ended March 31, 2009. The weighted average interest rate of FHLB borrowings decreased from 4.32% for the year ended March 31, 2008 to 1.99% for the year ended March 31, 2009.

Provision for Loan Losses. The provision for loan losses for fiscal year 2009 was \$16.2 million, compared to \$2.9 million for the same period in the prior year. The increase in the provision for loan losses was the result of increased loan growth, changes in the loan loss rates and a negative trend in the risk rating migration of certain loans. The risk rating migration primarily consisted of land acquisition and development loans and residential construction loans being moved to higher risk rating categories. The ratio of allowance for loan losses and unfunded loan commitments to total net loans was 2.15% at March 31, 2009, compared to 1.44% at March 31, 2008. Net charge-offs for the year ended March 31, 2009 were \$9.9 million, compared to \$866,000 for the same period last year. The increase in net

charge-offs is primarily attributable to the charge-off of land and lot loans totaling \$6.1 million, speculative construction loans totaling \$1.8 million and commercial loans totaling \$1.2 million for the year ended March 31, 2009. Annualized net charge-offs to average net loans for the year ended March 31, 2009 were 1.24%, compared to 0.12% for the same period in the prior year.

Non-Interest Income. Non-interest income decreased \$3.4 million to \$5.5 million for the year ended March 31, 2009 from \$8.9 million for the same period in 2008. The decrease in non-interest income is primarily due to the OTTI charge of \$3.4 million on a trust preferred security taken during the second quarter of fiscal year 2009. For the year ended March 31, 2009, broker loan fees decreased by \$804,000 compared to the year ended March 31, 2008 primarily as a result of the slowdown in real estate loan sales. The decrease in asset management fees of \$68,000 for the year ended March 31, 2009 compared to the same prior year period corresponds with the decrease in assets under management by RAMCorp. from \$330.5 million at March 31, 2008 to \$276.6 million at March 31, 2009. The decrease in value of assets under management is primarily

attributable to the decline in the stock market during fiscal year 2009. These decreases were partially offset by an increase of \$361,000 in gains on loans held for sale, as well as the reversal of \$489,000 for a contingent liability previously reserved for a property, which the Company disposed of during the fourth quarter of fiscal year 2009.

Non-Interest Expense. Non-interest expense decreased \$532,000 to \$27.3 million for fiscal year ended March 31, 2009 compared to \$27.8 million for fiscal year ended March 31, 2008. The principal components of the decrease in the Company's non-interest expense were decreases in salaries and employee benefits and marketing expenses. For the year ended March 31, 2009, salaries and employee benefits, which includes mortgage broker commission compensation, was \$15.1 million, a 7.2% decrease over the prior year total of \$16.2 million. Salaries decreased primarily as a result of a decrease in the number of full-time equivalent employees from 270 at March 31, 2008 to 247 at March 31, 2009, and as a result of the decrease in mortgage broker commissions.

Income Taxes. The benefit for income taxes was \$1.6 million for the year ended March 31, 2009 compared to an income tax provision of \$4.5 million for the year ended March 31, 2008. The benefit for income taxes was a result of the net pre-tax loss incurred for the year ended March 31, 2009. The effective tax rate for fiscal year 2009 was 37.1% compared to 34.2% for fiscal year 2008. When the Company incurs a pre-tax loss, its effective tax rate is higher than the statutory tax rate primarily as a result of non-taxable income generated from investments in bank owned life insurance and tax-exempt municipal bonds. Reference is made to Note 14 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K, for further discussion of the Company's income taxes.

Average Balance Sheet. The following table sets forth, for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income earned on average interest-earning assets and interest expense paid on average interest-bearing liabilities, resultant yields, interest rate spread, ratio of interest-earning assets to interest-bearing liabilities and net interest margin. Average balances for a period have been calculated using monthly average balances during such period. Interest income on tax-exempt securities has been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 34%. Non-accruing loans were included in the average loan amounts outstanding. Loan fees of \$1.2 million, \$2.0 million and \$2.8 million are included in interest income for the years ended March 31, 2010, 2009 and 2008, respectively.

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| | Year Ended March 31, | | | | | | | | |
|--------------------------------------|------------------------|-----------|--------|------------|-----------|--------|------------|-----------|--------|
| | 2010 | | | 2009 | | | 2008 | | |
| | Average | Interest | Yield/ | Average | Interest | Yield/ | Average | Interest | Yield/ |
| | Balance | and | Cost | Balance | and | Cost | Balance | and | Cost |
| | (Dollars in thousands) | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Mortgage loans | \$ 650,101 | \$ 39,896 | 6.14% | \$ 674,144 | \$ 44,781 | 6.64% | \$ 600,386 | \$ 50,229 | 8.37% |
| Non-mortgage loans | 109,389 | 5,779 | 5.28 | 120,077 | 7,102 | 5.91 | 105,470 | 8,518 | 8.08 |
| Total net loans | 759,490 | 45,675 | 6.01 | 794,221 | 51,883 | 6.53 | 705,856 | 58,747 | 8.32 |
| Mortgage-backed securities (1) | 3,738 | 136 | 3.64 | 5,348 | 211 | 3.95 | 7,101 | 323 | 4.55 |
| Investment securities (1) | 10,861 | 425 | 3.91 | 10,063 | 615 | 6.11 | 11,480 | 703 | 6.12 |
| Daily interest-bearing assets | 964 | 1 | 0.10 | 9,593 | 112 | 1.17 | 18,656 | 883 | 4.73 |
| Other earning assets | 21,113 | 79 | 0.37 | 8,515 | 100 | 1.17 | 7,930 | 99 | 1.25 |
| Total interest-earning assets | 796,166 | 46,316 | 5.82 | 827,740 | 52,921 | 6.39 | 751,023 | 60,755 | 8.09 |
| Non-interest-earning assets: | | | | | | | | | |
| Office properties and equipment, net | 18,738 | | | 20,339 | | | 21,427 | | |
| Other non-interest-earning assets | 66,628 | | | 54,180 | | | 59,589 | | |
| Total assets | \$ 881,532 | | | \$ 902,259 | | | \$ 832,039 | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Regular savings accounts | \$ 29,526 | \$ 162 | 0.55 | \$ 27,138 | \$ 149 | 0.55 | \$ 27,403 | \$ 151 | 0.55 |
| Interest checking | 79,444 | 331 | 0.42 | 86,986 | 983 | 1.13 | 129,552 | 3,906 | 3.02 |
| Money market accounts | 192,064 | 2,360 | 1.23 | 173,853 | 3,810 | 2.19 | 219,528 | 8,882 | 4.05 |
| Certificates of deposit | 277,639 | 6,782 | 2.44 | 282,055 | 10,337 | 3.66 | 197,049 | 9,204 | 4.67 |
| Total interest-bearing deposits | 578,673 | 9,635 | 1.67 | 570,032 | 15,279 | 2.68 | 573,532 | 22,143 | 3.86 |
| Other interest-bearing liabilities | 118,408 | 1,741 | 1.47 | 150,681 | 3,904 | 2.59 | 69,733 | 3,587 | 5.14 |
| | 697,081 | 11,376 | 1.63 | 720,713 | 19,183 | 2.66 | 643,265 | 25,730 | 4.00 |

T o t a l
interest-bearing
liabilities

Non-interest-bearing
liabilities:

Non-interest-bearing

| | | | |
|---|------------|------------|------------|
| deposits | 87,508 | 81,566 | 82,776 |
| Other liabilities | 6,197 | 7,108 | 9,068 |
| Total liabilities | 790,786 | 809,387 | 735,109 |
| Shareholders' equity | 90,746 | 92,872 | 96,930 |
| Total liabilities and shareholders' equity | \$ 881,532 | \$ 902,259 | \$ 832,039 |
| Net interest income | \$ 34,940 | \$ 33,738 | \$ 35,025 |
| Interest rate spread | 4.19% | 3.73% | 4.09% |
| Net interest margin | 4.39% | 4.08% | 4.66% |

Ratio of average
interest-earning
assets

t o a v e r a g e
interest-bearing
liabilities

| | | | |
|--|---------|---------|---------|
| | 114.21% | 114.85% | 116.75% |
|--|---------|---------|---------|

Tax Equivalent
Adjustment (2)

| | | | |
|--|-------|-------|-------|
| | \$ 54 | \$ 71 | \$ 73 |
|--|-------|-------|-------|

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

(2) Tax-equivalent adjustment relates to non-taxable investment interest income and preferred equity securities dividend income. The federal statutory tax rate was 34% for all years presented.

Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on net interest income of the Company. Information is provided with respect to: (i) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate); (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) changes in rate/volume (change in rate multiplied by change in volume). Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.

| | Year Ended March 31, | | | | | |
|------------------------------------|----------------------------|------------|---|----------------------------|-------------|---------------------------------|
| | 2010 vs. 2009 | | | 2009 vs. 2008 | | |
| | Increase (Decrease) Due to | | Total Increase (Decrease) (in thousands) | Increase (Decrease) Due to | | Total Increase (Decrease) |
| Volume | Rate | Volume | | Rate | | |
| Interest Income: | | | | | | |
| Mortgage loans | \$ (1,570) | \$ (3,315) | \$ (4,885) | \$ 5,714 | \$ (11,162) | \$ (5,448) |
| Non-mortgage loans | (602) | (721) | (1,323) | 1,076 | (2,492) | (1,416) |
| Mortgage-backed securities | (59) | (16) | (75) | (73) | (39) | (112) |
| Investment securities | | | | | | |
| (1) | 46 | (236) | (190) | (87) | (1) | (88) |
| Daily interest-bearing | (55) | (56) | (111) | (303) | (468) | (771) |
| Other earning assets | 79 | (100) | (21) | 7 | (6) | 1 |
| Total interest income | (2,161) | (4,444) | (6,605) | 6,334 | (14,168) | (7,834) |
| Interest Expense: | | | | | | |
| Regular savings accounts | 13 | - | 13 | (2) | - | (2) |
| Interest checking accounts | (79) | (573) | (652) | (1,006) | (1,917) | (2,923) |
| Money market deposit accounts | 364 | (1,814) | (1,450) | (1,582) | (3,490) | (5,072) |
| Certificates of deposit | (160) | (3,395) | (3,555) | 3,406 | (2,273) | 1,133 |
| Other interest-bearing liabilities | (716) | (1,447) | (2,163) | 2,714 | (2,397) | 317 |
| Total interest expense | (578) | (7,229) | (7,807) | 3,530 | (10,077) | (6,547) |
| Net interest income | \$ (1,583) | \$ 2,785 | \$ 1,202 | \$ 2,804 | \$ (4,091) | \$ (1,287) |

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

Asset and Liability Management

The Company's principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating market interest rates. The Company has sought to reduce the exposure of its earnings to changes in market

interest rates by attempting to manage the difference between asset and liability maturities and interest rates. The principal element in achieving this objective is to increase the interest rate sensitivity of the Company's interest-earning assets and interest-bearing liabilities. Interest rate sensitivity increases by retaining portfolio loans with interest rates subject to periodic adjustment to market conditions and selling fixed-rate one-to-four family mortgage loans with terms to maturity of more than 15 years. The Company relies on retail deposits as its primary source of funds. Management believes retail deposits reduce the effects of interest rate fluctuations because they generally represent a stable source of funds. As part of its interest rate risk management strategy, the Company promotes transaction accounts and certificates of deposit with terms up to ten years.

The Company has adopted a strategy that is designed to maintain or improve the interest rate sensitivity of assets relative to its liabilities. The primary elements of this strategy involve: the origination of adjustable rate loans; increasing commercial loans, consumer loans that are adjustable rate and other short-term loans as a portion of total net loans receivable because of their generally shorter terms and higher yields than other one-to-four family residential mortgage loans; matching asset and liability maturities; investing in short-term securities; and the origination of fixed-rate loans for sale in the secondary market and the retention of the related loan servicing rights. The strategy for liabilities has been to shorten the maturities for both deposits and borrowings. This approach has remained consistent throughout the past year, as the Company has experienced a change in the mix of loans, deposits, FRB borrowings and FHLB advances.

The Company's mortgage servicing activities provide additional protection from interest rate risk. The Company retains servicing rights on all mortgage loans sold. As market interest rates rise, the fixed rate loans held in portfolio diminish in

value. However, the value of the servicing portfolio tends to rise as market interest rates increase because borrowers tend not to prepay the underlying mortgages, thus providing an interest rate risk hedge versus the fixed rate loan portfolio. Loans serviced for others totaled \$129.5 million of which \$115.4 million is serviced for FHLMC at March 31, 2010. See "Item 1. Business -- Lending Activities -- Mortgage Loan Servicing."

Consumer loans, such as home equity lines of credit and installment loans, commercial loans and construction loans typically have shorter terms and higher yields than permanent residential mortgage loans, and accordingly reduce the Company's exposure to fluctuations in interest rates. Adjustable interest rate loans totaled \$545.6 million or 74.3% of total loans at March 31, 2010 as compared to \$618.9 million or 77.2% at March 31, 2009. Although the Company has sought to originate adjustable rate loans, the ability to originate and purchase such loans depends to a great extent on market interest rates and borrowers' preferences. Particularly in lower interest rate environments, borrowers often prefer to obtain fixed rate loans. See Item 1. "Business - Lending Activities - Construction Lending" and " - Lending Activities - Consumer Lending."

The Company may also invest in short-term to medium-term U.S. Government securities as well as mortgage-backed securities issued or guaranteed by U.S. Government agencies. At March 31, 2010, the combined portfolio carried at \$10.4 million had an average term to repricing or maturity of 3.48 years. Adjustable rate mortgage-backed securities totaled \$623,000 at March 31, 2010 compared to \$1.0 million at March 31, 2009. See Item 1. "Business -- Investment Activities."

Liquidity and Capital Resources

Liquidity is essential to our business. The objective of the Bank's liquidity management is to maintain ample cash flows to meet obligations for depositor withdrawals, fund the borrowing needs of loan customers, and to fund ongoing operations. Core relationship deposits are the primary source of the Bank's liquidity. As such, the Bank focuses on deposit relationships with local consumer and business clients who maintain multiple accounts and services at the Bank. With the significant downturn in economic conditions our customers in general have experienced reduced funds available to deposit in the Bank. Despite these difficult economic conditions, customer relationship deposit balances increased \$51.3 million over fiscal year 2010, including an increase in money market accounts of approximately \$31.1 million. Total deposits were \$688.0 million at March 31, 2010 compared to \$670.1 million at March 31, 2009. The growth in deposits; coupled with the decrease in the loan portfolio, provided the Company with the funds to reduce its secured borrowings from FHLB and FRB. The Company continues to focus on reducing its use of secured borrowings. During the year ended March 31, 2010, the Company reduced its FHLB and FRB borrowings by \$89.9 million to \$33.0 million, compared to \$122.9 million at March 31, 2009.

In response to the adverse economic conditions, the Company has been, and will continue to work toward reducing the amount of nonperforming assets, adjusting the balance sheet by reducing loans and other assets as possible, reducing controllable operating costs, and augmenting deposits while striving to maximize secured borrowing facilities to improve liquidity and preserve capital over the coming fiscal year. However, the Company's inability to successfully implement its plans or further deterioration in economic conditions and real estate prices could have a material adverse effect on the Company's liquidity. During fiscal year 2010, the Company enrolled in an Internet deposit listing service. Under this listing service, the Company may post time deposit rates on an internet site where institutional investors have the ability to deposit funds with the Company. During fiscal year 2010, the Company used this listing service as an additional source of funding and to further diversify its funding sources. These deposits carry a lower interest rate than the Company core branch deposits. As of March 31, 2010, the Company had deposits totaling \$24.5 million through this listing service.

Liquidity management is both a short- and long-term responsibility of the Company's management. The Company adjusts its investments in liquid assets based upon management's assessment of (i) expected loan demand, (ii) projected loan sales, (iii) expected deposit flows, (iv) yields available on interest-bearing deposits and (v) its asset/liability management program objectives. Excess liquidity is invested generally in interest-bearing overnight

deposits and other short-term government and agency obligations. If the Company requires funds beyond its ability to generate them internally, it has additional diversified and reliable sources of funds with the FHLB, the FRB, and other wholesale facilities. These sources of funds may be used on a long or short-term basis to compensate for reduction in other sources of funds or on a long-term basis to support lending activities. In the first quarter of fiscal 2011, we elected to defer regularly scheduled interest payments on our outstanding \$22.7 million aggregate principal amount of junior subordinated debentures issued in connection with the sale of trust preferred securities through statutory business trusts. This deferral may adversely affect our ability to access wholesale funding facilities or obtain other debt financing on commercially reasonable terms, or at all. For more information concerning limitations on our ability to incur additional debt and the risks related to our recent deferral of interest on our trust preferred securities, see Item 1A. “Risk Factors – Risks Related to our Business – We are required to comply with the terms of two memoranda of understanding and a supervisory letter directive issued by the OTS and lack of compliance could result in monetary penalties and /or additional regulatory actions.” And “--We have deferred payments of interest on our

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

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

The Company must maintain an adequate level of liquidity to ensure the availability of sufficient funds in order to fund loan originations and deposit withdrawals, satisfy other financial commitments and to take advantage of investment opportunities. We generally maintain cash and readily marketable securities to meet a portion of our short-term liquidity needs; however, our primary liquidity management practice is to increase or decrease short-term borrowings, including FHLB advances and FRB borrowings. At March 31, 2010, advances from FHLB totaled \$23.0 million and the Bank had additional borrowing capacity available of \$157.0 million from the FHLB, subject to sufficient collateral and stock investment. At March 31, 2010, borrowings from the FRB totaled \$10.0 million and the Bank had additional borrowing capacity of \$120.7 million from the FRB, subject to sufficient collateral. At March 31, 2010, the Bank had sufficient unpledged collateral to allow it to utilize its available borrowing capacity from the FRB and FHLB. Borrowing capacity from FHLB or FRB may fluctuate based on acceptability and risk rating of loan collateral and counterparties could adjust discount rates applied to such collateral at their discretion.

An additional source of wholesale funding includes brokered certificate of deposits. The Company has historically not relied on brokered deposits to fund its operations. At March 31, 2010, the Company had no brokered deposits, compared to \$19.9 million at March 31, 2009, exclusive of CDARS deposits. The Bank participates in the CDARS product, which allows the Bank to accept deposits in excess of the FDIC insurance limits for that depositor and obtain “pass-through” insurance for the total deposit. The Bank’s CDARS balance was \$31.9 million, or 4.6% of total deposits, and \$22.2 million, or 3.3% of total deposits, at March 31, 2010 and March 31, 2009, respectively. With news of bank failures and increased levels of distress in the financial services industry and growing customer concern with FDIC insurance limits, customer interest in and demand for CDARS deposits has remained strong with continued renewals of existing CDARS deposits and the opening of new accounts.

On June 9, 2009, the OTS informed the Bank that it was restricting the Bank’s brokered deposits to 10% of total deposits (including CDARS). At March 31, 2010 and June 9, 2009, the Company did not have any wholesale-brokered deposits. At June 9, 2009, the Company had \$20.4 million in CDARS deposits, which represented 3.2% of total deposits. The combination of all the Bank’s funding sources, gives the Bank available liquidity of \$318.3 million, or 37.9% of total assets at March 31, 2010.

Under the TLGP, all noninterest-bearing transaction accounts, IOLTA accounts (or interest on lawyer’s trust accounts), and certain NOW accounts are fully guaranteed by the FDIC for the entire amount in the account. The Bank has elected to participate in this program at an additional cost to the Bank. Other deposits maintained at the Bank are also insured by the FDIC up to \$250,000 per account owner through December 31, 2013.

At March 31, 2010, the Company had commitments to extend credit of \$104.0 million. The Company anticipates that it will have sufficient funds available to meet current loan commitments. Certificates of deposit that are scheduled to mature in less than one year from March 31, 2010 totaled \$244.1 million. Historically, the Company has been able to

retain a significant amount of its deposits as they mature. Offsetting these cash outflows are scheduled loan maturities of less than one year totaling \$217.3 million at March 31, 2010.

Sources of capital and liquidity for the Company include distributions from the Bank and the issuance of debt or equity securities. Dividends and other capital distributions from the Bank arise from the cash flow and earnings of the Bank, which distributions are subject to regulatory restriction and approval. To the extent the Bank cannot pay dividends to the Company, the Company may not have sufficient funds to pay dividends to its stockholders or may be forced to defer interest payments on its subordinated debentures, which in turn, may restrict the Company's ability to pay dividends on its common stock.

OTS regulations require the Bank to maintain specific amounts of regulatory capital. For a detailed discussion of regulatory capital requirements, see "Regulation -- Federal Regulation of Savings Associations -- Capital Requirements" and Note 17 of

the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K. In this regard, as part of our strategic planning; the Company has filed a registration statement in connection with a proposed public offering of its common stock.

Effect of Inflation and Changing Prices

The Consolidated Financial Statements and related financial data presented herein have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation is reflected in the increased cost of the Company's operations. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

New Accounting Pronouncements

For a discussion of new accounting pronouncement and their impact on the Company, see Note 1 of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

Contractual Obligations

The following table shows the contractual obligations by expected period. Further discussion of these commitments is included in Note 21 of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

At March 31, 2010, scheduled maturities of certificates of deposit, FRB borrowings, FHLB advances, future operating minimum lease commitments, capital lease obligations and subordinated debentures were as follows (in thousands):

| | Within 1 Year | Over 1 to 3 Years | Over 3 - 5 Years | After 5 Years | Total Balance |
|--|------------------|-------------------------|------------------------|---------------------|------------------|
| Certificates of deposit | \$ 244,090 | \$ 37,939 | \$ 7,801 | \$ 1,876 | \$ 291,706 |
| FRB borrowings | 10,000 | - | - | - | 10,000 |
| FHLB advances | 23,000 | - | - | - | 23,000 |
| Operating leases | 1,264 | 2,098 | 2,058 | 4,683 | 10,103 |
| Capital leases | 43 | 127 | 163 | 2,277 | 2,610 |
| Junior subordinated debentures | - | - | - | 22,681 | 22,681 |
| Total other contractual obligations | \$ 278,397 | \$ 40,164 | \$ 10,022 | \$ 31,517 | \$ 360,100 |

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.

The Bank has entered into employment contracts with certain key employees, which provide for contingent payment subject to future events.

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. Those 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 those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. Commitments to originate loans 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.

At March 31, 2010, the Company had outstanding real estate one-to-four family loan commitments of \$1.4 million and unused lines of credit secured by real estate one-to-four family loans of \$18.7 million. Other installment loan commitments totaled \$349,000 and unused lines of credit on other installment loans totaled \$1.0 million at March 31, 2010. Commercial real estate mortgage loan commitments totaled \$10.6 million and the undisbursed balance of commercial real estate mortgage loans closed was \$2.8 million at March 31, 2010. Commercial loan commitments totaled \$75,000, undisbursed

balances of commercial loans totaled \$5.0 million and unused commercial lines of credit totaled \$51.1 million at March 31, 2010. At March 31, 2010, there were no construction loan commitments. Unused construction lines of credit totaled \$13.2 million at March 31, 2010. For additional information regarding future financial commitments, this discussion and analysis should be read in conjunction with Note 21 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Quantitative Aspects of Market Risk. The Company does not maintain a trading account for any class of financial instrument nor does it engage in hedging activities or purchase high-risk derivative instruments. Furthermore, the Company is not subject to foreign currency exchange rate risk or commodity price risk. For information regarding the sensitivity to interest rate risk of the Company's interest-earning assets and interest-bearing liabilities, see the tables under Item 1. "Business -- Lending Activities," "-- Investment Activities" and "-- Deposit Activities and Other Sources of Funds" contained herein.

Qualitative Aspects of Market Risk. The Company's principal financial objective is to achieve long-term profitability while limiting its exposure to fluctuating market interest rates. The Company intends to reduce risk where appropriate but accepts a degree of risk when warranted by economic circumstances. The Company has sought to reduce the exposure of its earnings to changes in market interest rates by attempting to manage the mismatch between asset and liability maturities and interest rates. The principal element in achieving this objective is to increase the interest rate sensitivity of the Company's interest-earning assets by retaining in its portfolio, short-term loans and loans with interest rates subject to periodic adjustments. The Company relies on retail deposits as its primary source of funds. As part of its interest rate risk management strategy, the Company promotes transaction accounts and certificates of deposit with terms up to ten years.

Consumer and commercial loans are originated and held in portfolio as the short term nature of these portfolio loans match durations more closely with the short term nature of retail deposits such as interest checking, money market accounts and savings accounts. The Company relies on retail deposits as its primary source of funds. Management believes retail deposits reduce the effects of interest rate fluctuations because they generally represent a more stable source of funds. As part of its interest rate risk management strategy, the Company promotes transaction accounts and certificates of deposit with longer terms to maturity. Except for immediate short-term cash needs, and depending on the current interest rate environment, FHLB advances will have maturities of long or short term. FRB borrowings have short term maturities. For additional information, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein.

A number of measures are utilized to monitor and manage interest rate risk, including simulation modeling and traditional interest rate gap analysis. While both methods provide an indication of risk for a given change in interest rates, the simulation model is primarily used to assess the impact on earning changes in interest rates may produce. Key assumptions in the model include cash flows and maturities of financial instruments, changes in market conditions, loan volumes and pricing, deposit sensitivity, consumer preferences and management's capital leverage plans. These assumptions are inherently uncertain; therefore, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results may significantly differ from simulated results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and specific strategies among other factors.

The following tables show the approximate percentage change in net interest income as of March 31, 2010 over a 24-month period under several rate scenarios.

| Percent | Percent |
|---------------|---------------|
| change in net | change in net |

| Change in i n t e r e s t rates | interest income (12 months) | interest income (24 months) |
|---------------------------------------|-----------------------------------|-----------------------------------|
| U p 200 basis points | (4.3%) | (8.4%) |
| Base case | - | (1.2%) |
| Down 100 basis points | 1.6% | 0.8% |

Our balance sheet continues to be slightly asset sensitive, meaning that interest-earning assets reprice faster than interest-bearing liabilities in a given period. However, due to a number of loans in our loan portfolio with interest rate floors, our net interest income will be negatively impacted in a rising interest rate environment until such time as the current rate exceeds these interest rate floors. Conversely, in a falling interest rate environment these interest rate floors will assist in maintaining our net interest income. We attempt to limit our interest rate risk through managing the repricing characteristics of our assets and liabilities.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as ARM loans, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Furthermore, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table.

The following table shows the Company's financial instruments that are sensitive to changes in interest rates, categorized by expected maturity, and the instruments' fair values at March 31, 2010. Market risk sensitive instruments are generally defined as on- and off-balance sheet derivatives and other financial instruments.

| | Average Rate | Within 1 Year | After 1 - 3 Years | After 3 - 5 Years | After 5 - 10 Years | Beyond 10 Years | Total |
|---|-----------------|-------------------|-------------------------|-------------------------|--------------------------|-----------------------|-------------------|
| Interest-Sensitive Assets: | | | | | | | |
| (Dollars in thousands) | | | | | | | |
| Loans receivable | 6.12% | \$ 217,311 | \$ 78,111 | \$ 78,278 | \$ 288,884 | \$ 71,895 | \$ 734,479 |
| Mortgage-backed securities | 3.70 | 633 | 2,454 | - | - | - | 3,087 |
| Investments and other interest-earning assets | 2.66 | 9,443 | - | - | 517 | 743 | 10,703 |
| FHLB stock | - | 1,470 | 2,940 | 2,940 | - | - | 7,350 |
| Total assets | | \$ 228,857 | \$ 83,505 | \$ 81,218 | \$ 289,401 | \$ 72,638 | \$ 755,619 |

| | | | | | | | |
|--|------|----------------|----------------|----------------|--------------|---------------|----------------|
| Interest-Sensitive Liabilities: | | | | | | | |
| Interest checking | 0.34 | \$ 14,167 | \$ 28,335 | \$ 28,335 | \$ - | \$ - | \$ 70,837 |
| Savings accounts | 0.55 | 6,427 | 12,852 | 12,852 | - | - | 32,131 |
| Money market accounts | 1.04 | 41,916 | 83,832 | 83,832 | - | - | 209,580 |
| Certificate accounts | 1.86 | 244,090 | 37,939 | 7,801 | 1,876 | - | 291,706 |
| FHLB advances | 0.63 | 23,000 | - | - | - | - | 23,000 |
| FRB borrowings | 0.50 | 10,000 | - | - | - | - | 10,000 |
| Subordinated debentures | 5.31 | - | - | - | - | 22,681 | 22,681 |
| Obligations under capital lease | 7.16 | 43 | 127 | 164 | 528 | 1,748 | 2,610 |
| Total liabilities | | 339,643 | 163,085 | 132,984 | 2,404 | 24,429 | 662,545 |
| Interest sensitivity gap | | (110,786) | (79,580) | (51,766) | 286,997 | 48,209 | \$ 93,074 |
| Cumulative interest sensitivity gap | | \$ (110,786) | \$ (190,366) | \$ (242,132) | \$ 44,865 | \$ 93,074 | |

Off-Balance Sheet
Items:

| | | | | | | | | | |
|------------------------------|---|----|--------|---|---|---|---|----|--------|
| Commitments to extend credit | - | \$ | 12,375 | - | - | - | - | \$ | 12,375 |
| Unused lines of credit | - | \$ | 91,611 | - | - | - | - | \$ | 91,611 |

Item 8. Financial Statements and Supplementary Data

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

Consolidated Financial Statements for the Years Ended March 31, 2010, 2009 and 2008
Report of Independent Registered Public Accounting Firm

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Riverview Bancorp, Inc.
Vancouver, Washington

We have audited the accompanying consolidated balance sheets of Riverview Bancorp, Inc. and subsidiary (the "Company") as of March 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Riverview Bancorp, Inc. and subsidiary as of March 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of March 31, 2010, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 28, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/Deloitte & Touche LLP

Portland, Oregon
May 28, 2010

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2010 AND 2009

| (In thousands, except share and per share data) | 2010 | 2009 |
|--|-------------------|-------------------|
| ASSETS | | |
| Cash and cash equivalents (including interest-earning accounts of \$3,384 and \$6,405) | \$ 13,587 | \$ 19,199 |
| Loans held for sale | 255 | 1,332 |
| Investment securities held to maturity, at amortized cost (fair value of \$573 and \$552) | 517 | 529 |
| Investment securities available for sale, at fair value (amortized cost of \$8,706 and \$11,244) | 6,802 | 8,490 |
| Mortgage-backed securities held to maturity, at amortized cost (fair value of \$265 and \$572) | 259 | 570 |
| Mortgage-backed securities available for sale, at fair value (amortized cost of \$2,746 and \$3,991) | 2,828 | 4,066 |
| Loans receivable (net of allowance for loan losses of \$21,642 and \$16,974) | 712,837 | 784,117 |
| Real estate and other personal property owned | 13,325 | 14,171 |
| Prepaid expenses and other assets | 7,934 | 2,518 |
| Accrued interest receivable | 2,849 | 3,054 |
| Federal Home Loan Bank stock, at cost | 7,350 | 7,350 |
| Premises and equipment, net | 16,487 | 19,514 |
| Deferred income taxes, net | 11,177 | 8,209 |
| Mortgage servicing rights, net | 509 | 468 |
| Goodwill | 25,572 | 25,572 |
| Core deposit intangible, net | 314 | 425 |
| Bank owned life insurance | 15,351 | 14,749 |
| TOTAL ASSETS | \$ 837,953 | \$ 914,333 |

LIABILITIES AND EQUITY**LIABILITIES:**

| | | |
|--|----------------|----------------|
| Deposit accounts | \$ 688,048 | \$ 670,066 |
| Accrued expenses and other liabilities | 6,833 | 6,700 |
| Advanced payments by borrowers for taxes and insurance | 427 | 360 |
| Federal Home Loan Bank advances | 23,000 | 37,850 |
| Federal Reserve Bank borrowings | 10,000 | 85,000 |
| Junior subordinated debentures | 22,681 | 22,681 |
| Capital lease obligations | 2,610 | 2,649 |
| Total liabilities | 753,599 | 825,306 |

COMMITMENTS AND CONTINGENCIES (See Note 21)**EQUITY:**

Shareholders' equity

| | | |
|--|-------------------|-------------------|
| Serial preferred stock, \$.01 par value; 250,000 authorized, issued and outstanding: none | - | - |
| Common stock, \$.01 par value; 50,000,000 authorized | | |
| March 31, 2010 – 10,923,773 issued and outstanding | 109 | 109 |
| March 31, 2009 – 10,923,773 issued and outstanding | | |
| Additional paid-in capital | 46,948 | 46,866 |
| Retained earnings | 38,878 | 44,322 |
| Unearned shares issued to employee stock ownership trust | (799) | (902) |
| Accumulated other comprehensive loss | (1,202) | (1,732) |
| Total shareholders' equity | 83,934 | 88,663 |
| Noncontrolling interest | 420 | 364 |
| Total equity | 84,354 | 89,027 |
| TOTAL LIABILITIES AND EQUITY | \$ 837,953 | \$ 914,333 |

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED MARCH 31, 2010, 2009 AND 2008

| (Dollars in thousands, except share data) | 2010 | 2009 | 2008 |
|---|-------------------|-------------------|-----------------|
| INTEREST AND DIVIDEND INCOME: | | | |
| Interest and fees on loans receivable | \$ 45,675 | \$ 51,883 | \$ 58,747 |
| Interest on investment securities – taxable | 267 | 407 | 488 |
| Interest on investment securities – non taxable | 104 | 137 | 142 |
| Interest on mortgage-backed securities | 136 | 211 | 323 |
| Other interest and dividends | 80 | 212 | 982 |
| Total interest and dividend income | 46,262 | 52,850 | 60,682 |
| INTEREST EXPENSE: | | | |
| Interest on deposits | 9,635 | 15,279 | 22,143 |
| Interest on borrowings | 1,741 | 3,904 | 3,587 |
| Total interest expense | 11,376 | 19,183 | 25,730 |
| Net interest income | 34,886 | 33,667 | 34,952 |
| Less provision for loan losses | 15,900 | 16,150 | 2,900 |
| Net interest income after provision for loan losses | 18,986 | 17,517 | 32,052 |
| NON-INTEREST INCOME: | | | |
| Fees and service charges | 4,513 | 4,669 | 5,346 |
| Asset management fees | 1,885 | 2,077 | 2,145 |
| Net gain on sale of loans held for sale | 887 | 729 | 368 |
| Impairment on investment security | (1,003) | (3,414) | - |
| Bank owned life insurance | 603 | 573 | 562 |
| Other | 381 | 896 | 461 |
| Total non-interest income | 7,266 | 5,530 | 8,882 |
| NON-INTEREST EXPENSE: | | | |
| Salaries and employee benefits | 15,326 | 15,080 | 16,249 |
| Occupancy and depreciation | 4,814 | 5,064 | 5,146 |
| Data processing | 957 | 841 | 786 |
| Amortization of core deposit intangible | 111 | 131 | 155 |
| Advertising and marketing expense | 627 | 727 | 1,054 |
| FDIC insurance premium | 1,912 | 760 | 210 |
| State and local taxes | 732 | 668 | 741 |
| Telecommunications | 440 | 466 | 406 |
| Professional fees | 1,317 | 1,110 | 826 |
| Real estate owned expenses | 6,421 | 317 | 22 |
| Other | 2,316 | 2,095 | 2,196 |
| Total non-interest expense | 34,973 | 27,259 | 27,791 |
| INCOME (LOSS) BEFORE INCOME TAXES | (8,721) | (4,212) | 13,143 |
| PROVISION (BENEFIT) FOR INCOME TAXES | (3,277) | (1,562) | 4,499 |
| NET INCOME (LOSS) | \$ (5,444) | \$ (2,650) | \$ 8,644 |

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Earnings (loss) per common share:

| | | | | | | |
|---------|----|--------|----|--------|----|------|
| Basic | \$ | (0.51) | \$ | (0.25) | \$ | 0.79 |
| Diluted | | (0.51) | | (0.25) | | 0.79 |

Weighted average number of shares outstanding:

| | | | |
|---------|------------|------------|------------|
| Basic | 10,720,525 | 10,693,795 | 10,915,271 |
| Diluted | 10,720,525 | 10,693,795 | 11,006,673 |

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED MARCH 31, 2010, 2009 AND 2008

| (In thousands, except share data) | Common Stock | | Additional Paid-In Capital | Retained Earnings | Unearned Shares Issued to Employee Stock Ownership Trust | Accumulated Other Comprehensive Loss | Noncontrolling Interest | Total |
|---|--------------|--------|----------------------------------|----------------------|--|---|----------------------------|------------|
| | Shares | Amount | | | | | | |
| Balance April 1, 2007 | 11,707,980 | \$ 117 | \$ 58,438 | \$ 42,848 | \$ (1,108) | \$ (86) | 221 | \$ 100,430 |
| 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) |
| ASC 740 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) | 221 | 84,294 |
| 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) |
| Noncontrolling interest | - | - | - | - | - | - | 71 | 71 |
| Total comprehensive income | - | - | - | - | - | - | - | 8,583 |
| | 10,913,773 | 109 | 46,799 | 46,871 | (976) | (218) | 292 | 92,877 |

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| | | | | | | | | | |
|--|------------|-----|--------|---------|-------|---------|-----|---------|---------|
| Balance March 31, 2008 | | | | | | | | | |
| Cash dividends (\$0.135 per share) | - | - | - | (1,441) | - | - | - | - | (1,441) |
| Exercise of stock options | 10,000 | - | 96 | - | - | - | - | - | 96 |
| Earned ESOP shares | - | - | (31) | - | 74 | - | - | - | 43 |
| Cumulative effect of adopting ASC 320 | - | - | - | 1,542 | - | (1,542) | - | - | - |
| Tax benefit, stock options | - | - | 2 | - | - | - | - | - | 2 |
| | 10,923,773 | 109 | 46,866 | 46,972 | (902) | (1,760) | 292 | 91,577 | |
| Comprehensive loss: | | | | | | | | | |
| Net loss | - | - | - | (2,650) | - | - | - | - | (2,650) |
| Other comprehensive loss: | | | | | | | | | |
| Unrealized holding gain on securities of \$2,225 (net of \$1,146 tax effect) less reclassification adjustment for net losses included in net income of \$2,253 (net of \$1,161 tax effect) | - | - | - | - | - | 28 | - | 28 | |
| Noncontrolling interest | - | - | - | - | - | - | 72 | 72 | |
| Total comprehensive loss | - | - | - | - | - | - | - | (2,550) | |
| Balance March 31, 2009 | 10,923,773 | 109 | 46,866 | 44,322 | (902) | (1,732) | 364 | 89,027 | |
| Stock option expense | - | - | 112 | - | - | - | - | 112 | |
| Earned ESOP shares | - | - | (30) | - | 103 | - | - | 73 | |

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| | | | | | | | | |
|---|---------------|--------|-----------|-----------|---------|-----------|--------|---------|
| | 10,923,773 | 109 | 46,948 | 44,322 | (799) | (1,732) | 364 | 89,212 |
| Comprehensive loss: | | | | | | | | |
| Net loss | - | - | - | (5,444) | - | - | - | (5,444) |
| Other comprehensive loss: | | | | | | | | |
| Unrealized holding gain on securities of \$132 (net of \$14 tax effect) less reclassification adjustment for net losses included in net income of \$662 (net of \$341 tax effect) | - | - | - | - | - | 530 | - | 530 |
| Noncontrolling interest | - | - | - | - | - | - | 56 | 56 |
| Total comprehensive loss | - | - | - | - | - | - | - | (4,858) |
| Balance March 31, 2010 | 10,923,773 \$ | 109 \$ | 46,948 \$ | 38,878 \$ | (799)\$ | (1,202)\$ | 420 \$ | 84,354 |

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2010, 2009 AND 2008

| (Dollars in thousands) | 2010 | 2009 | 2008 |
|--|------------|------------|----------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income (loss) | \$ (5,444) | \$ (2,650) | \$ 8,644 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | |
| Depreciation and amortization | 2,225 | 2,320 | 2,193 |
| Mortgage servicing rights valuation adjustment | 2 | (6) | (28) |
| Provision for loan losses | 15,900 | 16,150 | 2,900 |
| Benefit for deferred income taxes | (3,295) | (3,653) | (395) |
| Noncash expense related to ESOP | 73 | 43 | 414 |
| Increase (decrease) in deferred loan origination fees, net of amortization | (31) | 179 | 51 |
| Origination of loans held for sale | (29,514) | (27,997) | (14,829) |
| Proceeds from sales of loans held for sale | 30,851 | 26,782 | 14,895 |
| Stock based compensation | 112 | - | - |
| Excess tax benefit from stock based compensation | - | (11) | (14) |
| Writedown of real estate owned | 4,794 | 100 | 9 |
| Loss on impairment of security | 1,003 | 3,414 | - |
| Net gain on loans held for sale, sale of real estate owned, mortgage-backed securities, sale of investment securities and premises and equipment | (6) | (618) | (361) |
| Income from bank owned life insurance | (603) | (573) | (562) |
| Changes in assets and liabilities, net of acquisition: | | | |
| Prepaid expenses and other assets | (5,567) | 93 | 206 |
| Accrued interest receivable | 205 | 382 | 386 |
| Accrued expenses and other liabilities | (831) | (573) | (956) |
| Net cash provided by operating activities | 9,874 | 13,382 | 12,553 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Loan repayments (originations), net | 41,729 | (57,891) | (76,838) |
| Proceeds from call, maturity, or sale of investment securities available for sale | 6,150 | 480 | 11,360 |
| Principal repayments on investment securities available for sale | 375 | 75 | 75 |
| Purchase of investment securities held to maturity | - | (536) | - |
| Purchase of investment securities available for sale | (4,988) | (5,000) | - |
| Principal repayments on mortgage-backed securities available for sale | 1,244 | 1,341 | 1,447 |
| Principal repayments on mortgage-backed securities held to maturity | 311 | 315 | 347 |
| Principal repayments on investment securities held to maturity | 12 | 7 | - |
| Purchase of premises and equipment and capitalized software | (475) | (545) | (1,629) |

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| | | | |
|--|--------|----------|----------|
| Capital expenditures on real estate owned | (47) | - | - |
| Proceeds from sale of real estate owned and premises and equipment | 12,044 | 431 | 6 |
| Net cash provided by (used in) investing activities | 56,355 | (61,323) | (65,232) |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | | |
|--|-------------|-------------|-----------|
| Net change in deposit accounts, net of deposits acquired | 17,982 | 3,066 | 1,595 |
| Dividends paid | - | (2,402) | (4,740) |
| Repurchase of common stock | - | - | (12,643) |
| Proceeds from issuance of subordinated debentures | - | - | 15,000 |
| Proceeds from borrowings | 922,600 | 1,321,510 | 366,500 |
| Repayment of borrowings | (1,012,450) | (1,291,510) | (308,700) |
| Principal payments under capital lease obligation | (40) | (37) | (35) |
| Net increase (decrease) in advance payments by borrowers | 67 | (33) | (4) |
| Excess tax benefit from stock based compensation | - | 11 | 14 |
| Proceeds from exercise of stock options | - | 96 | 708 |
| Net cash provided by (used in) financing activities | (71,841) | 30,701 | 57,695 |

| | | | |
|---------------------------------|-----------|-----------|-----------|
| NET INCREASE (DECREASE) IN CASH | (5,612) | (17,240) | 5,016 |
| CASH, BEGINNING OF YEAR | 19,199 | 36,439 | 31,423 |
| CASH, END OF YEAR | \$ 13,587 | \$ 19,199 | \$ 36,439 |

SUPPLEMENTAL DISCLOSURES:

Cash paid during the year for:

| | | | |
|--------------|-----------|-----------|-----------|
| Interest | \$ 11,343 | \$ 19,372 | \$ 25,511 |
| Income taxes | 1,320 | 1,538 | 4,639 |

NONCASH INVESTING AND FINANCING ACTIVITIES:

| | | | |
|---|-----------|-----------|--------|
| Transfer of loans to real estate owned, net | \$ 16,085 | \$ 14,306 | \$ 503 |
| Dividends declared and accrued in other liabilities | - | - | 960 |
| Fair value adjustment to securities available for sale | 857 | 43 | (201) |
| Income tax effect related to fair value adjustment | (327) | (15) | 69 |
| Capitalized software acquired under a service agreement | 19 | 130 | 417 |
| Sale-leaseback of building | 2,000 | - | - |

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of Riverview Bancorp, Inc. (the “Company”); its wholly-owned subsidiary, Riverview Community Bank (the “Bank”); the Bank’s wholly-owned subsidiary, Riverview Services, Inc.; and the Bank’s majority owned subsidiary, Riverview Asset Management Corp. (“RAMCorp”). All inter-company transactions and balances have been eliminated in consolidation.

The Company has also established two subsidiary grantor trusts in connection with the issuance of trust preferred securities (see Note 13). In accordance with accounting standards, the accounts and transactions of the trusts are not included in the accompanying consolidated financial statements.

As a result of the adoption of accounting standards for noncontrolling interest, the Company reclassified its noncontrolling interest from accrued expenses and other liabilities to a separate component of equity on the Consolidated Balance Sheet for 2009 to conform with the 2010 presentation.

Nature of Operations – The Bank is a seventeen branch community-oriented financial institution operating in rural and suburban communities in southwest Washington State and Multnomah, Clackamas and Marion counties of Oregon. The Bank is engaged primarily in the business of attracting deposits from the general public and using such funds, together with other borrowings, to invest in various commercial, commercial real estate, multi-family real estate, real estate construction, residential real estate and consumer loans.

Use of Estimates in the Preparation of Financial Statements – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or “GAAP”), requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of related revenue and expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include amounts on hand, due from banks and interest-earning deposits in other banks. Cash and cash equivalents have a maturity of 90 days or less at the time of purchase.

Loans Held for Sale – The Company identifies loans held for sale at the time of origination and such loans are carried at the lower of aggregate cost or net realizable value. Market values are derived from available market quotations for comparable pools of mortgage loans. Adjustments for unrealized losses, if any, are charged to income.

Gains or losses on sales of loans held for sale are recognized at the time of sale and are determined by the difference between the net sales proceeds and the allocated basis of these loans sold. The Company capitalizes mortgage servicing rights (“MSRs”) acquired through either the purchase of MSRs, the sale of originated mortgage loans or the securitization of mortgage loans with servicing rights retained. Upon sale of mortgage loans held for sale, the total cost of the loans designated for sale is allocated to mortgage loans with and without MSRs based on their relative fair values. The MSRs are included as a component of gain on sale of loans. The MSRs are amortized in proportion to and over the estimated period of the net servicing income, such amortization is reflected as a component of loan servicing income.

Securities – Investment securities are classified as held to maturity when the Company has the ability and positive intent to hold such securities to maturity. Investment securities held to maturity are carried at amortized cost. Unrealized losses due to fluctuations in fair value are recognized when it is determined that a credit related other than temporary decline in value has occurred. Investment securities bought and held principally for the purpose of sale in the near term are classified as trading securities. Securities that the Company intends to hold for an indefinite period, but not necessarily to maturity are classified as available for sale. Such securities may be sold to implement the Company’s asset/liability management strategies and in response to changes in interest rates and similar factors. Securities available for sale are reported at fair value. Unrealized gains and losses, net of the related deferred tax effect, are reported as a net amount in a separate component of shareholders’ equity entitled “accumulated other comprehensive income (loss).” Realized gains and losses on securities available for sale, determined using the specific identification method, are included in earnings. Amortization of premiums and accretion of discounts are recognized in interest income over the period to maturity or expected call, if sooner.

The Company analyzes investment securities for other than temporary impairment (“OTTI”) on a quarterly basis. OTTI is separated into a credit and noncredit component. Noncredit component losses are recorded in other comprehensive income (loss) when the Company a) does not intend to sell the security or b) is not more likely than not to have to sell the security prior to the security’s anticipated recovery. Credit component losses are reported in non-interest income.

Loans – Loans are stated at the amount of unpaid principal, reduced by deferred loan origination fees and an allowance for loan losses. Interest on loans is accrued daily based on the principal amount outstanding.

Generally, the accrual of interest on loans is discontinued when, in management’s opinion, the borrower may be unable to meet payments as they become due or when they are past due 90 days as to either principal or interest, unless they are well secured and in the process of collection. When interest accrual is discontinued, all unpaid accrued interest is reversed against current income. If management determines that the ultimate collectibility of principal is in doubt, cash receipts on non-accrual loans are applied to reduce the principal balance on a cash-basis method until the loans qualify for return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized as an adjustment of the yield of the related loan.

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

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 Bank has no recourse to the borrower, or if it does, the borrower has insufficient assets to pay the debt; 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.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts (principal and interest) due according to the contractual terms of the loan agreement. Large groups of smaller balance homogenous loans such as consumer secured loans, residential mortgage loans and consumer unsecured loans are collectively evaluated for potential loss. Impaired loans are generally carried at the lower of cost or fair value, which may be determined based upon recent independent appraisals which are further reduced for estimated selling costs or as a practical expedient by estimating the present value of expected future cash flows, discounted at the loan’s effective

interest rate. When the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), impairment is recognized by creating or adjusting an allocation of the allowance for loan losses.

A provision for loan losses is charged against income and is added to the allowance for loan losses based on regular assessments of the loan portfolio. The allowance for loan losses is allocated to certain loan categories based on the relative risk characteristics, asset classifications and actual loss experience of the loan portfolio. While management has

allocated the allowance for loan losses to various loan portfolio segments, the allowance is general in nature and is available for the loan portfolio in its entirety.

The ultimate recovery of all loans is susceptible to future market factors beyond the Bank's control. There can be no assurance that the Company will not be required to make future adjustments to the allowance in response to changing economic conditions, particularly in the Company's primary market, since the majority of the Company's loans are collateralized by real estate. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses, and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

Allowance for Unfunded Loan Commitments – The allowance for unfunded loan commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. The allowance for unfunded loan commitments is included in other liabilities on the consolidated balance sheets, with changes to the balance charged against non-interest expense.

Real Estate Owned ("REO") – REO consists of properties acquired through foreclosure. Specific charge-offs are taken based upon detailed analysis of the fair value of collateral on the underlying loans on which the Company is in the process of foreclosing. Such collateral is transferred into REO at the lower of recorded cost or fair value less estimated costs of disposal. Subsequently, the Company performs an evaluation of the properties and writes down the REO directly and charges real estate owned expenses for any declines in value. The amounts the Company will ultimately recover from REO may differ from the amounts used in arriving at the net carrying value of these assets because of future market factors beyond the Company's control or because of changes in the Company's strategy for the sale of the property.

Federal Home Bank Loan Bank Stock – The Bank, as a member of Federal Home Loan Bank of Seattle ("FHLB"), is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its outstanding home loans or 5% of advances from the FHLB. The Company views its investment in FHLB stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate redemption of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate redemption is influenced by criteria such as: 1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and length of time a decline has persisted; 2) impact of legislative and regulatory changes on the FHLB and 3) the liquidity position of the FHLB. The FHLB of Seattle had a deterioration in its financial position and as a result had a risk-based capital deficiency under the regulations of its primary federal regulator. Therefore, the Company evaluated its investment in FHLB of Seattle stock for other than temporary impairment, consistent with its accounting policy. Based on the Company's evaluation of the underlying investment, including the long-term nature of the investment, the liquidity position of the FHLB of Seattle, the actions being taken by the FHLB of Seattle to address its regulatory situation and the Company's intent and ability to hold the investment for a period of time sufficient to be able to redeem its investment at par value, the Company did not recognize an other than temporary impairment loss on its FHLB stock. However, this estimate could change in the near term if: 1) significant other-than-temporary losses are incurred on the mortgage backed securities causing a significant decline in their regulatory capital status; 2) the economic losses resulting from credit deterioration on the mortgage backed securities increases significantly and 3) capital preservation strategies being utilized by the FHLB become ineffective.

Premises and Equipment – Premises and equipment are stated at cost less accumulated depreciation. Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements, whichever is less. Gains or losses on dispositions are reflected in earnings. Depreciation is generally computed on the straight-line method over the following estimated useful lives: building and improvements – up to 45 years; furniture and equipment

– three to twenty years; and leasehold improvements – fifteen to twenty-five years. The cost of maintenance and repairs is charged to expense as incurred. Assets are reviewed for impairment when events indicate their carrying value may not be recoverable. If management determines impairment exists the asset is reduced by an offsetting charge to expense.

The capitalized lease, less accumulated amortization is included in premises and equipment. The capitalized lease is amortized on a straight-line basis over the lease term and the amortization is included in depreciation expense.

Mortgage Servicing Rights – Fees earned for servicing loans for the Federal Home Loan Mortgage Corporation (“FHLMC”) are reported as income when the related mortgage loan payments are collected. Loan servicing costs are charged to expense as incurred.

MSRs are the rights to service loans. Loan servicing includes collecting payments, remitting funds to investors, insurance companies and tax authorities, collecting delinquent payments, and foreclosing on properties when necessary.

The Company records its originated MSRs at fair value in accordance with accounting standards, which requires the Company to allocate the total cost of all mortgage loans sold to the MSRs and the loans (without the MSRs) based on their relative fair values if it is practicable to estimate those fair values. The Company stratifies its MSRs based on the predominant characteristics of the underlying financial assets including coupon interest rate and contractual maturity of the mortgage. An estimated fair value of MSRs is determined quarterly using a discounted cash flow model. The model estimates the present value of the future net cash flows of the servicing portfolio based on various factors, such as servicing costs, servicing income, expected prepayment speeds, discount rate, loan maturity and interest rate. The effect of changes in market interest rates on estimated rates of loan prepayments represents the predominant risk characteristic underlying the MSRs portfolio. The Company is amortizing the MSR in proportion to and over the period of estimated net servicing income.

MSRs are reviewed quarterly for impairment based on their fair value. The fair value of the MSRs, for the purposes of impairment, is measured using a discounted cash flow analysis based on market adjusted discount rates, anticipated prepayment speeds, mortgage loan term and coupon rate. Market sources are used to determine prepayment speeds, ancillary income, servicing cost and pre-tax required yield. Impairment losses are recognized through a valuation allowance for each impaired stratum, with any associated provision recorded as a component of loan servicing income.

Goodwill – Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is presumed to have an indefinite useful life and is tested, at least annually, for impairment at the reporting unit level. The Company performs an annual review in the third quarter of each year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired. The impairment test is performed in two phases. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, a second phase step must be performed. In the second step the implied fair value of the reporting unit is calculated. The implied fair value of goodwill is then compared to the carrying amount of goodwill on the Company’s balance sheet. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. As of March 31, 2010, the Company has not recognized any impairment loss on the recorded goodwill.

Core Deposit Intangible – Core deposit intangibles are amortized to non-interest expense using an accelerated method (based on expected attrition and cash flows of core deposit accounts purchased) over ten years.

Advertising and Marketing Expense – Costs incurred for advertising, merchandising, market research, community investment, travel and business development are classified as marketing expense and are expensed as incurred.

Income Taxes – 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. Valuation allowances are established to reduce the net carrying amount of

deferred tax assets if it is determined to be more likely than not, that all or some portion of the potential deferred tax asset will not be realized. The Company files a consolidated federal income tax return. The Bank provides for income taxes separately and remits to the Company amounts currently due.

Trust Assets – Assets held by RAMCorp. in a fiduciary or agency capacity for trust customers are not included in the consolidated financial statements because such items are not assets of the Company. Assets totaling \$279.5 million and \$276.6 million were held in trust as of March 31, 2010 and 2009, respectively.

Earnings Per Share – The Company accounts for earnings per share in accordance with accounting standards, which requires all companies whose capital structure includes dilutive potential common shares to make a dual presentation of basic and diluted earnings per share for all periods presented. Basic earnings per share is computed by dividing income

available to common shareholders by the weighted average number of common shares outstanding for the period, excluding restricted stock and unallocated shares owned by the Company's Employee Stock Ownership Plan ("ESOP"). Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised and has been computed after giving consideration to the weighted average diluted effect of the Company's stock options. For the years ended March 31, 2010 and 2009, the Company recognized a net loss and therefore all outstanding stock options were excluded from the calculation of diluted earnings per share because they were antidilutive.

Stock-Based Compensation – The Company accounts for stock based compensation in accordance with accounting guidance for stock compensation. The guidance requires measurement of the compensation cost for all stock-based awards based on the grant-date fair value and recognition of compensation cost over the service period of stock-based awards. The fair value of stock options is determined using the Black-Scholes valuation model.

Employee Stock Ownership Plan – The Company sponsors a leveraged ESOP. As shares are released, compensation expense is recorded equal to the then current market price of the shares and the shares become available for earnings per share calculations. The Company records cash dividends on unallocated shares as a reduction of debt and accrued interest.

Business segments – The Company operates a single business segment. The financial information that is used by the chief operating decision maker in allocating resources and assessing performance is only provided for one reportable segment for years ended March 31, 2010, 2009 and 2008.

Recently Adopted Accounting Pronouncements - In December 2007, the FASB issued accounting guidance on noncontrolling interests in consolidated financial statements, which 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. The accounting guidance is effective for fiscal years beginning after December 15, 2008. The Company has incorporated the guidance into preparing the Consolidated Financial Statements as of March 31, 2010, including retrospectively restating prior periods to conform to the requirements of this standard.

In April 2009, the FASB issued accounting guidance on the recognition and presentation of OTTI. This guidance amends current OTTI guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of OTTI on debt and equity securities in the financial statements. This guidance does not amend existing recognition and measurement guidance related to OTTI of equity securities. The literature provides for the bifurcation of OTTI into: (i) amounts related to credit losses, which are recognized through earnings, and (ii) amounts related to all other factors that are recognized as a component of other comprehensive income. The Company elected to early adopt this guidance effective January 1, 2009 and has incorporated the guidance into preparing the Consolidated Financial Statements as of March 31, 2009 and March 31, 2010.

In April 2009, the FASB issued accounting guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. This accounting guidance provides additional guidance for fair value measures in determining if the market for an asset or liability is inactive and accordingly, if quoted market prices may not be indicative of fair value and also re-emphasizes that the objective of a fair value measurement remains an exit price. This accounting guidance is effective for periods ending after June 15, 2009, with earlier adoption permitted for periods ending after March 15, 2009. The Company elected to early adopt this accounting guidance for the year ended March 31, 2009. The adoption of this guidance did not have a material affect on the financial position or results of operations.

In April 2009, the FASB issued accounting guidance on interim disclosures about fair value of financial instruments. The guidance is designed to enhance consistency in financial reporting by increasing the frequency of fair value disclosures. This accounting guidance is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company elected to early adopt this FSP for the year ended March 31, 2009. The adoption of the FSP did not have a material affect on the financial position or results of operations.

Effective March 1, 2009, the Company adopted accounting guidance issued by the FASB in June 2008 regarding the determination on whether instruments granted in share-base payment transactions are participating securities. Under this guidance, unvested share-based payment awards that contain non-forfeitable rights to dividends will be considered to be a separate class of common stock and will be included in the basic EPS calculation using the two-class method that

is described in accounting guidance related to earnings per share. The adoption of this accounting guidance did not have an impact on the Company's financial position or results of operations.

In May 2009, the FASB issued accounting guidance on subsequent events. This accounting guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This accounting guidance is effective for periods ending after June 15, 2009. In February 2010, the FASB amended its guidance on subsequent events. As a public reporting company, the Company is required to evaluate subsequent events through the date its financial statements are issued. The adoption of these rules did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued accounting guidance on the accounting for transfers of financial assets. This guidance improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

The guidance is effective for periods ending after November 15, 2009. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations and cash flows.

In June 2009, the FASB issued guidance that significantly changes the criteria for determining whether the consolidation of a variable interest entity is required. This guidance also addresses the effect of changes on consolidation of variable interest entities and concerns regarding the application of certain provisions in previously issued accounting guidance, including concerns that the accounting and disclosures do not always provide timely and useful information about an entity's involvement in a variable interest entity. This guidance is effective for interim and annual reporting periods that begin after November 15, 2009. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations and cash flows.

In January 2010, the FASB issued an accounting standards update on accounting and reporting for decreases in ownership of a subsidiary related to a scope clarification. The standards updates implementation issues related to changes in ownership provisions including clarifying the scope of the decrease in ownership and additional disclosures. This updated accounting standard is effective beginning in the period that an entity adopts accounting standards for noncontrolling interest. If an entity has previously adopted the standard for noncontrolling interest, this updated accounting standard is effective beginning in the first interim or annual reporting period ending on or after December 15, 2009 and should be applied retrospectively to the first period the standard on noncontrolling interest was adopted. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

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

2. RESTRICTED ASSETS

Federal Reserve Board regulations require that the Bank maintain minimum reserve balances either on hand or on deposit with the Federal Reserve Bank (“FRB”), based on a percentage of deposits. The amounts of such balances as of March 31, 2010 and 2009 were \$726,000 and \$604,000, respectively.

3. 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 |
|--------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| March 31, 2010 | | | | |
| Municipal bonds | \$ 517 | \$ 56 | - | \$ 573 |
| March 31, 2009 | | | | |
| Municipal bonds | \$ 529 | \$ 23 | - | \$ 552 |

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

| | Amortized Cost | Estimated Fair Value |
|---|-------------------|----------------------------|
| March 31, 2010 | | |
| Due in one year or less | \$ - | \$ - |
| Due after one year through five years | - | - |
| Due after five years through ten years | 517 | 573 |
| Due after ten years | - | - |
| Total | \$ 517 | \$ 573 |

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 |
|----------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| March 31, 2010 | | | | |
| Trust preferred | \$ 2,974 | \$ - | \$(1,932) | \$ 1,042 |
| Agency securities | 4,989 | 28 | - | 5,017 |
| Municipal bonds | 743 | - | - | 743 |
| Total | \$ 8,706 | \$ 28 | \$(1,932) | \$ 6,802 |
| March 31, 2009 | | | | |
| | \$ 3,977 | \$ - | \$(2,833) | \$ 1,144 |

| | | | | |
|-------------------|-----------|-------|-----------|----------|
| Trust preferred | | | | |
| Agency securities | 5,000 | 54 | - | 5,054 |
| Municipal bonds | 2,267 | 25 | - | 2,292 |
| Total | \$ 11,244 | \$ 79 | \$(2,833) | \$ 8,490 |

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, 2010 are as follows (in thousands):

| | Less than 12 months | | 12 months or longer | | Total | |
|-----------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Trust preferred | \$ - | \$ - | \$ 1,042 | \$ (1,932) | \$ 1,042 | \$ (1,932) |

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, 2009 are as follows (in thousands):

| | Less than 12 months | | 12 months or longer | | Total | |
|-----------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Trust preferred | \$ - | \$ - | \$ 1,144 | \$ (2,833) | \$ 1,144 | \$ (2,833) |

During the year ended March 31, 2010, the Company recognized \$1.0 million in non-cash OTTI charges on the above trust preferred investment security. Management concluded that a portion of the decline of the estimated fair value below the Company's cost was other than temporary and accordingly, recorded a credit loss through non-interest

income. The Company determined the remaining decline in value was not related to specific credit deterioration. The Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell the security before the anticipated recovery of the remaining amortized cost basis.

To determine the component of gross OTTI related to credit losses, the Company compared the amortized cost basis of the OTTI security to the present value of the revised expected cash flows, discounted using the current pre-impairment yield. The revised expected cash flow estimates are based primarily on an analysis of default rates, prepayment speeds and third-party analytical reports. Significant judgment of management is required in this analysis that includes, but is not limited to, assumptions regarding the ultimate collectibility of principal and interest on the underlying collateral.

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

| | Amortized Cost | Estimated Fair Value |
|---|-------------------|----------------------------|
| March 31, 2010 | | |
| Due in one year or less | \$ - | \$ - |
| Due after one year through five years | 4,989 | 5,017 |
| Due after five years through ten years | - | - |
| Due after ten years | 3,717 | 1,785 |
| Total | \$ 8,706 | \$ 6,802 |

Investment securities with an amortized cost of \$499,000 and \$1.1 million and a fair value of \$502,000 and \$1.2 million at March 31, 2010 and 2009, respectively, were pledged as collateral for treasury tax and loan funds held by the Bank. Investment securities with an amortized cost of \$2.8 million and \$1.8 million and a fair value of \$2.9 million and \$1.8 million at March 31, 2010 and 2009, respectively, were pledged as collateral for government public funds held by the Bank. The Company realized no gains or losses on sales of investment securities in the years ended March 31, 2010, 2009 and 2008.

4. MORTGAGE-BACKED SECURITIES

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| March 31, 2010 | | | | |
| Real estate mortgage investment conduits | \$ 53 | \$ - | \$ - | \$ 53 |
| FHLMC mortgage-backed securities | 86 | 3 | - | 89 |
| FNMA mortgage-backed securities | 120 | 3 | - | 123 |
| Total | \$ 259 | \$ 6 | \$ - | \$ 265 |

March 31, 2009

| | | | | | | | | |
|--|----|-----|----|---|----|---|----|-----|
| Real estate mortgage investment conduits | \$ | 348 | \$ | - | \$ | - | \$ | 348 |
| FHLMC mortgage-backed securities | | 94 | | 1 | | - | | 95 |
| FNMA mortgage-backed securities | | 128 | | 1 | | - | | 129 |
| Total | \$ | 570 | \$ | 2 | \$ | - | \$ | 572 |

Mortgage-backed securities held to maturity with an amortized cost of \$136,000 and \$438,000 and a fair value of \$138,000 and \$439,000 at March 31, 2010 and 2009, respectively, were pledged as collateral for governmental public funds. Mortgage-backed securities held to maturity with an amortized cost of \$105,000 and \$110,000 and a fair value of \$107,000 and \$111,000 at March 31, 2010 and 2009, respectively, were pledged as collateral for treasury tax and loan funds held by the Bank. The real estate mortgage investment conduits consist of FHLMC and FNMA securities.

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

| March 31, 2010 | Amortized Cost | Estimated Fair Value |
|--|----------------|----------------------|
| Due in one year or less | \$ - | \$ - |
| Due after one year through five years | 8 | 8 |
| Due after five years through ten years | - | - |
| Due after ten years | 251 | 257 |
| Total | \$ 259 | \$ 265 |

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| March 31, 2010 | | | | |
| Real estate mortgage investment conduits | \$ 538 | \$ 18 | \$ - | \$ 556 |
| FHLMC mortgage-backed securities | 2,158 | 61 | - | 2,219 |
| FNMA mortgage-backed securities | 50 | 3 | - | 53 |
| Total | \$ 2,746 | \$ 82 | \$ - | \$ 2,828 |
| March 31, 2009 | | | | |
| Real estate mortgage investment conduits | \$ 673 | \$ 12 | \$ - | \$ 685 |
| FHLMC mortgage-backed securities | 3,249 | 61 | - | 3,310 |
| FNMA mortgage-backed securities | 69 | 2 | - | 71 |
| Total | \$ 3,991 | \$ 75 | \$ - | \$ 4,066 |

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

| | Amortized Cost | Estimated Fair Value |
|---|-------------------|----------------------------|
| March 31, 2010 | | |
| Due in one year or less | \$ - | \$ - |
| Due after one year through five years | 2,188 | 2,251 |
| Due after five years through ten years | 192 | 203 |
| Due after ten years | 366 | 374 |
| Total | \$ 2,746 | \$ 2,828 |

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 with or without prepayment penalties.

Mortgage-backed securities available for sale with an amortized cost of \$2.7 million and \$3.9 million and a fair value of \$2.8 million and \$4.0 million at March 31, 2010 and 2009, respectively, were pledged as collateral for advances at the FHLB. Mortgage-backed securities available for sale with an amortized cost of \$51,000 and \$66,000 and a fair value of \$53,000 and \$68,000 at March 31, 2010 and 2009, respectively, were pledged as collateral for government public funds held by the Bank.

5. LOANS RECEIVABLE

Loans receivable at March 31, 2010 and 2009 are reported net of deferred loan fees totaling \$3.0 million and \$3.4 million, respectively. Loans receivable, excluding loans held for sale, consisted of the following (in thousands):

| | March 31, 2010 | March 31, 2009 |
|-----------------------------------|----------------------|----------------------|
| Commercial and construction | | |
| Commercial | \$ 108,368 | \$ 127,150 |
| Other real estate mortgage | 459,178 | 447,652 |
| Real estate construction | 75,456 | 139,476 |
| Total commercial and construction | 643,002 | 714,278 |
| Consumer | | |
| Real estate one-to-four family | 88,861 | 83,762 |
| Other installment | 2,616 | 3,051 |
| Total consumer | 91,477 | 86,813 |
| Total loans | 734,479 | 801,091 |
| Less: | | |
| Allowance for loan losses | 21,642 | 16,974 |
| Loans receivable, net | \$ 712,837 | \$ 784,117 |

The Company originates commercial business, commercial real estate, multi-family real estate, real estate construction, residential real estate and consumer loans. At March 31, 2010 and 2009, the Company had no loans to foreign domiciled businesses or foreign countries, or loans related to highly leveraged transactions. Substantially all of the mortgage loans

in the Company's portfolio are secured by properties located in Washington and Oregon, and, accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio is susceptible to changes in the local economic conditions in these markets. 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.

Aggregate loans to officers and directors, all of which are current, consist of the following (in thousands):

| | Year Ended March 31, | | |
|----------------------|----------------------|----------|--------|
| | 2010 | 2009 | 2008 |
| Beginning balance | \$ 1,021 | \$ 418 | \$ 185 |
| Originations | 628 | 681 | 360 |
| Principal repayments | (201) | (78) | (127) |
| Ending balance | \$ 1,448 | \$ 1,021 | \$ 418 |

6. ALLOWANCE FOR LOAN LOSSES

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

| | Year Ended March 31, | | |
|---------------------------|----------------------|-----------|-----------|
| | 2010 | 2009 | 2008 |
| Beginning balance | \$ 16,974 | \$ 10,687 | \$ 8,653 |
| Provision for loan losses | 15,900 | 16,150 | 2,900 |
| Charge-offs | (11,321) | (9,890) | (905) |
| Recoveries | 89 | 27 | 39 |
| Ending balance | \$ 21,642 | \$ 16,974 | \$ 10,687 |

Changes in the allowance for unfunded loan commitments, which were recorded in accrued expenses and other liabilities on the Consolidated Balance Sheets, were as follows (in thousands):

| | Year Ended March 31, | | |
|---|----------------------|--------|--------|
| | 2010 | 2009 | 2008 |
| Beginning balance | \$ 296 | \$ 337 | \$ 380 |
| Net change in allowance for unfunded loan commitments | (111) | (41) | (43) |
| Ending balance | \$ 185 | \$ 296 | \$ 337 |

Loans on which the accrual of interest has been discontinued were \$36.0 million, \$27.4 million and \$7.6 million at March 31, 2010, 2009 and 2008, respectively. Interest income foregone on non-accrual loans was \$2.8 million, \$2.0 million and \$199,000 during the years ended March 31, 2010, 2009, and 2008, respectively. At March 31, 2010 and 2009, nonperforming assets were \$49.3 million and \$41.7 million, respectively.

At March 31, 2010, 2009 and 2008, the Company's recorded investment in certain loans that were considered to be impaired was \$37.8 million, \$28.7 million, and \$7.2 million, respectively. At March 31, 2010, \$30.1 million of the impaired loans had a specific related valuation allowance of \$8.0 million, while \$7.7 million did not require a specific valuation allowance. At March 31, 2009, \$25.0 million of the impaired loans had a specific related valuation allowance of \$4.3 million, while \$3.7 million did not require a specific valuation allowance. At March 31, 2008, all of the impaired loans had specific valuation allowances totaling \$902,000. The balance of the allowance for loan losses in excess of these specific reserves is available to absorb the inherent losses from all loans in the portfolio. The average investment in impaired loans was \$36.4 million, \$24.3 million and \$2.0 million during the years ended March

31, 2010, 2009 and 2008, respectively. The related amount of interest income recognized on loans that were impaired was \$175,000, \$373,000 and \$65,000 during the years ended March 31, 2010, 2009 and 2008, respectively. At March 31, 2010, there were no loans past due 90 days or more and still accruing interest. At March 31, 2009 and 2008, loans past due 90 days or more and still accruing interest totaled \$187,000 and \$115,000 respectively.

7. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following (in thousands):

| | March 31, | |
|--|-----------|-----------|
| | 2010 | 2009 |
| Land | \$ 3,213 | \$ 3,890 |
| Buildings and improvements | 11,941 | 13,074 |
| Leasehold improvements | 1,413 | 1,994 |
| Furniture and equipment | 10,091 | 10,275 |
| Buildings under capitalized leases | 2,715 | 2,715 |
| Total | 29,373 | 31,948 |
| Less accumulated depreciation and amortization | (12,886) | (12,434) |
| Premises and equipment, net | \$ 16,487 | \$ 19,514 |

Depreciation expense was \$1.7 million, \$1.8 million and \$1.8 million for the years ended March 31, 2010, 2009 and 2008, respectively. The Company is obligated under various noncancellable lease agreements for land and buildings that require future minimum rental payments, exclusive of taxes and other charges.

During fiscal year 2006, the Company entered into a capital lease for the shell of the building constructed as the Company's new operations center. The lease period is for twelve years with two six-year lease renewal options. For the years ended March 31, 2010, 2009 and 2008, the Company recorded \$113,000 in amortization expense. At March 31, 2010 and 2009, accumulated amortization for the capital lease totaled \$488,000 and \$376,000, respectively.

In March 2010, the Company sold two of its branch locations. The Company maintains a substantial continuing involvement in the locations through various non-cancellable operating leases that contain certain renewal options. The resulting gain on sale of \$2.1 million was deferred and is being amortized over the life of the respective leases. At March 31, 2010, the deferred gain was \$2.1 million and is included in accrued expenses and other liabilities in the accompanying Consolidated Balance Sheets.

The following is a schedule of future minimum lease payments under capital leases together with the present value of net minimum lease payments and the future minimum rental payments required under operating leases that have initial or noncancellable lease terms in excess of one year as of March 31, 2010 (in thousands):

| Year Ending March 31: | Operating Lease | Capital Lease |
|--|--------------------|------------------|
| 2011 | \$ 1,264 | \$ 228 |
| 2012 | 1,033 | 236 |
| 2013 | 1,065 | 251 |
| 2014 | 1,054 | 251 |
| 2015 | 1,004 | 251 |
| Thereafter | 4,683 | 3,683 |
| T o t a l m i n i m u m l e a s e p a y m e n t s | \$ 10,103 | 4,900 |

| | |
|------------------------------------|----------|
| Less amount representing interest | (2,290) |
| Present value of net minimum lease | \$ 2,610 |

Rent expense was \$1.7 million, \$1.8 million and \$1.9 million for the years ended March 31, 2010, 2009 and 2008, respectively.

8. REAL ESTATE OWNED

The following table is a summary of the activity in REO for the periods indicated (in thousands):

| | Year Ended March 31, | | |
|-----------------------------------|----------------------|-----------|--------|
| | 2010 | 2009 | 2008 |
| Balance at beginning of year, net | \$ 14,171 | \$ 494 | \$ - |
| Additions | 19,644 | 14,666 | 503 |
| Dispositions | (15,696) | (889) | - |
| Writedowns | (4,794) | (100) | (9) |
| Balance end or year, net | \$ 13,325 | \$ 14,171 | \$ 494 |

REO expenses for the year ended March 31, 2010 consisted of write-downs on existing REO properties of \$4.8 million, operating expenses of \$726,000 and losses on dispositions of REO of \$902,000. REO expenses for the year ended March 31, 2009 primarily consisted of operating expense of \$114,000 and losses on dispositions of REO of \$104,000. REO expenses for the year ended March 31, 2008 were insignificant.

9. GOODWILL

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

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

10. DEPOSIT ACCOUNTS

Deposit accounts consisted of the following (dollars in thousands):

| Account Type | Weighted Average Rate | March 31, 2010 | Weighted Average Rate | March 31, 2009 |
|---------------------------|-----------------------------|----------------------|-----------------------------|----------------------|
| Non-interest-bearing | 0.00% | \$ 83,794 | 0.00% | \$ 88,528 |
| Interest checking | 0.34 | 70,837 | 0.53 | 96,629 |
| Money market | 1.04 | 209,580 | 1.55 | 178,479 |
| Savings accounts | 0.55 | 32,131 | 0.55 | 28,753 |
| Certificate of deposit | 1.86 | 291,706 | 3.08 | 277,677 |
| Total | 1.16% | \$ 688,048 | 1.79% | \$ 670,066 |

The weighted average rate is based on interest rates at the end of the period.

Certificates of deposit in amounts of \$100,000 or more totaled \$179.2 million and \$142.5 million at March 31, 2010 and 2009, respectively.

Interest expense by deposit type was as follows (in thousands):

| | Year Ended March 31, | | |
|---------------------------|----------------------|-----------|-----------|
| | 2010 | 2009 | 2008 |
| Interest checking | \$ 331 | \$ 983 | \$ 3,906 |
| Money market | 2,360 | 3,810 | 8,882 |
| Savings accounts | 162 | 149 | 151 |
| Certificate of deposit | 6,782 | 10,337 | 9,204 |
| Total | \$ 9,635 | \$ 15,279 | \$ 22,143 |

11. FEDERAL HOME LOAN BANK ADVANCES

At March 31, 2010 and 2009, advances from the FHLB totaled \$23.0 million and \$37.9 million with a weighted average interest rate of 0.64% and 2.02%, respectively. The FHLB borrowings at March 31, 2010 consisted of two \$10.0 million fixed rate advance and a Cash Management Advance (CMA) with a rate set daily by the FHLB. The weighted average interest rate for fixed and adjustable rate advances was 1.07%, 1.99%, and 4.32% for the years ended March 31, 2010, 2009 and 2008, respectively.

The Bank has a credit line with the FHLB equal to 30% of total assets, limited by available collateral. At March 31, 2010, based on collateral values, the Bank had additional borrowing capacity of \$157.0 million from the FHLB. FHLB advances are collateralized as provided for in the Advance, Pledge and Security Agreements with the FHLB by certain investment and mortgage-backed securities, FHLB stock owned by the Bank, deposits with the FHLB, and certain mortgages on deeds of trust securing such properties as provided in the agreements with the FHLB. At March 31, 2010, loans carried at \$263.5 million and investments and mortgage-backed securities carried at \$2.6 million were pledged as collateral to the FHLB. At March 31, 2010, all of the Bank's FHLB advances were scheduled to mature during the fiscal year 2011.

12. FEDERAL RESERVE BANK BORROWINGS

The Company has a borrowing arrangement with the FRB under the Borrower-In-Custody program. Under this program, the Bank has an available credit facility of \$130.7 million, subject to pledged collateral. As of March 31, 2010, the Company had outstanding borrowings of \$10.0 million with the FRB. The weighted average interest rate for these advances was 0.50%. At March 31, 2010, loans carried at \$255.4 million were pledged as collateral to the FRB. All of the Bank's FRB borrowings are scheduled to mature in April 2011; however, the Bank plans to renew these borrowings when they mature.

13. JUNIOR SUBORDINATED DEBENTURES

At March 31, 2010, the Company had two wholly-owned subsidiary grantor trusts that were established for the purpose of issuing trust preferred securities and common securities. The trust preferred securities accrue and pay distributions periodically at specified annual rates as provided in each 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, 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 March 31, 2010 and 2009, 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 Operations.

The following table is a summary of the terms of the current Debentures at March 31, 2010:

| 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 | % | 1.62 | % | 3/2036 |
| Riverview Bancorp Statutory Trust II | 6/2007 | 15,464 | Fixed (2) | 7.03 | % | 7.03 | % | 9/2037 |
| | | \$22,681 | | | | | | |

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

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

14. INCOME TAXES

Income tax provision (benefit) for the years ended March 31 consisted of the following (in thousands):

| | 2010 | 2009 | 2008 |
|----------|------------|------------|----------|
| Current | \$ 18 | \$ 2,091 | \$ 4,894 |
| Deferred | (3,295) | (3,653) | (395) |
| Total | \$ (3,277) | \$ (1,562) | \$ 4,499 |

The tax effect of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at March 31, 2010 and 2009 are as follows (in thousands):

| | 2010 | 2009 |
|--|--------|--------|
| Deferred tax assets: | | |
| Deferred compensation | \$ 624 | \$ 593 |
| Loan loss reserve | 7,749 | 6,131 |
| Core deposit intangible | - | 10 |
| Accrued expenses | 199 | 190 |
| Accumulated depreciation | 410 | 368 |
| Deferred gain on sale | 522 | - |
| Net unrealized loss on securities available for sale | 620 | 98 |
| Impairment on investment security | 233 | 1,212 |
| Capital loss carry forward | - | 684 |
| REO expense | 2,286 | 796 |
| Non-compete | 132 | 146 |
| Other | 216 | 117 |
| Total deferred tax asset | 12,991 | 10,345 |

| | | |
|------------------------------|-----------|----------|
| Deferred tax liabilities: | | |
| FHLB stock dividend | (1,063) | (1,063) |
| Deferred gain on sale | - | (210) |
| Purchase accounting | (112) | (151) |
| Prepaid expense | (122) | (125) |
| Loan fees/costs | (517) | (587) |
| Total deferred tax liability | (1,814) | (2,136) |
| Deferred tax asset, net | \$ 11,177 | \$ 8,209 |

A reconciliation of the Company's effective income tax rate with the federal statutory tax rate for the years ended March 31 is as follows:

| | 2010 | 2009 | 2008 |
|--|-------|-------|-------|
| | 34.0% | 34.0% | 35.0% |

| | | | |
|---|-------|-------|-------|
| Statutory federal income tax rate | | | |
| State and local income tax rate | 1.5 | 1.5 | 1.2 |
| ESOP market value adjustment | 0.1 | (0.3) | 0.8 |
| Interest income on municipal securities | 0.4 | 1.2 | (0.4) |
| Bank owned life insurance | 2.5 | 4.8 | (1.5) |
| Other, net | (0.9) | (4.1) | (0.9) |
| Effective federal income tax rate | 37.6% | 37.1% | 34.2% |

There were no taxes related to the gains on sales of securities for the years ended March 31, 2010, 2009 and 2008. The tax effects of certain tax benefits related to stock options are recorded directly to shareholders' equity.

The Bank's retained earnings at March 31, 2010 and 2009 include base year bad debt reserves, which amounted to \$2.2 million, for which no federal income tax liability has been recognized. The amount of unrecognized deferred tax liability at March 31, 2010 and 2009 was \$781,000. This represents the balance of bad debt reserves created for tax purposes as of December 31, 1987. These amounts are subject to recapture in the unlikely event that the Company's banking subsidiaries (1) make distributions in excess of current and accumulated earnings and profits, as calculated for federal tax purposes, (2) redeem their stock, or (3) liquidate. Management does not expect this temporary difference to reverse in the foreseeable future.

The Company adopted authoritative accounting guidance on April 1, 2007 related to uncertain tax positions. At March 31, 2010 and 2009, the Company had no unrecognized tax benefits or uncertain tax positions. In addition, the Company had no accrued interest or penalties as of March 31, 2010 or 2009. It is the Company's policy to recognize potential accrued interest and penalties as a component of income tax expense. The Company is subject to U.S. federal income tax and income tax of the State of Oregon. The years 2006 to 2009 remain open to examination for federal income taxes, and years 2005 to 2009 remain open to State examination.

In accordance with current accounting guidance, a valuation allowance is required to be recognized if it is "more likely than not" that all or a portion of the deferred tax assets will not be realized. "More likely than not" is defined as greater than 50% probability of occurrence. A determination as to the ultimate realization of the deferred tax assets is dependent upon management's judgment and evaluation of both positive and negative evidence, forecasts of future taxable income, applicable tax planning strategies, and an assessment of current and future economic and business conditions. Positive evidence reviewed included long-term earnings history prior to recent economic downturn, recent improved performance trends, proven ability to utilize deferred tax credits, projection of future income, capital levels and net operating loss carryback availability. Negative evidence reviewed included the losses sustained by the Company during the past two years.

After considering both the positive and negative factors, management believes it has sufficient positive indicators to outweigh the negative factors and therefore believes it is more likely than not that we will be able to fully realize all of the recorded deferred tax assets. Accordingly, the Company did not establish a valuation allowance for deferred tax assets at March 31, 2010 or 2009 as the Company believes it is more likely than not that the deferred tax assets will be realized principally through future reversals of existing temporary differences and based on projections of future taxable income from operations.

15. EMPLOYEE BENEFIT PLANS

Retirement Plan - The Riverview Bancorp, Inc. Employees' Savings and Profit Sharing Plan (the "Plan") is a defined contribution profit-sharing plan incorporating the provisions of Section 401(k) of the Internal Revenue Code. The Plan covers all employees with at least six months and 500 hours of service who are over the age of 18. The Company matches the employee's elective contribution up to 4% of the employee's compensation. Company expenses related to the Plan for the years ended March 31, 2010, 2009 and 2008 were \$401,000, \$432,000 and \$455,000, respectively.

Directors Deferred Compensation Plan - Directors may elect to defer their monthly directors' fees until retirement with no income tax payable by the director until retirement benefits are received. Chairman, President, Executive and Senior Vice Presidents of the Company may also defer salary into this plan. This alternative is made available to them through a nonqualified deferred compensation plan. The Company accrues annual interest on the unfunded liability under the Directors Deferred Compensation Plan based upon a formula relating to gross revenues, which amounted to 5.13%, 6.19% and 7.57% for the years ended March 31, 2010, 2009 and 2008, respectively. The estimated liability under the plan is accrued as earned by the participant. At March 31, 2010 and 2009, the Company's aggregate liability under the plan was \$1.8 million and \$1.7 million, respectively.

Stock Option Plans - In July 1998, shareholders of the Company approved the adoption of the 1998 Stock Option Plan ("1998 Plan"). The 1998 Plan was effective October 1, 1998 and terminated on October 1, 2008. Accordingly, no further option awards may be granted under the 1998 Plan; however, any awards granted prior to its expiration remain outstanding subject to their terms. Under the 1998 Plan, the Company had the ability to 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.

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 March 31, 2010, there were options for 78,154 shares of the Company's common stock available for future grant under the 2003 Plan.

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 is based on the U.S. Treasury yield curve in effect at the time of grant. The Company granted 122,000, 38,500 and 20,000 stock options during the years ended March 31, 2010, 2009 and 2008, respectively.

| | Risk Free Interest Rate | Expected Life (yrs) | Expected Volatility | Expected Dividends |
|----------------|-------------------------------|------------------------|------------------------|-----------------------|
| Fiscal 2010 | 3.08% | 6.25 | 37.55% | 2.45% |
| Fiscal 2009 | 2.99% | 6.25 | 20.20% | 2.77% |
| Fiscal 2008 | 4.32% | 6.25 | 15.13% | 3.06% |

The weighted average grant-date fair value of fiscal years 2010, 2009 and 2008 awards were \$1.22, \$1.09 and \$2.07, respectively. As of March 31, 2010, unrecognized compensation cost related to nonvested stock options totaled \$75,000. The Company recognized pre-tax compensation expense related to stock options of \$112,000, \$38,000 and \$34,000 for the years ended March 31, 2010, 2009 and 2008, respectively.

The following table presents the activity related to options under all plans for the periods indicated.

| | 2010 | | Year Ended March 31, 2009 | | 2008 | |
|------------------------------|------------------------|--|------------------------------|--|------------------------|--|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Balance, beginning of period | 371,696 | 10.99 | 424,972 | 11.02 | 526,192 | 10.41 |
| Grants | 122,000 | 3.82 | 38,500 | 6.30 | 20,000 | 13.42 |
| Options exercised | - | - | (10,000) | 4.70 | (95,620) | 7.68 |
| Forfeited | (8,000) | 10.82 | (48,000) | 11.71 | (25,600) | 12.69 |
| Expired | (19,996) | 5.50 | (33,776) | 6.88 | - | - |
| Balance, end of period | 465,700 | \$ 9.35 | 371,696 | \$ 10.99 | 424,972 | \$ 11.02 |

Additional information regarding options outstanding as of March 31, 2010 is as follows:

| | Options Outstanding | Options Exercisable |
|------------------------------|---------------------|---------------------|
| Weighted Avg Remaining | Weighted Average | Weighted Average |

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| Range of Exercise Price | Contractual Life (years) | Number Outstanding | Exercise Price | Number Exercisable | Exercise Price |
|-------------------------|--------------------------|--------------------|----------------|--------------------|----------------|
| \$3.64 - \$6.17 | 9.26 | 158,000 | \$ 4.36 | 36,000 | \$ 6.17 |
| \$6.51 - \$6.88 | 2.10 | 20,000 | 6.76 | 20,000 | 6.76 |
| \$7.49 - \$9.51 | 3.46 | 33,700 | 8.45 | 32,200 | 8.47 |
| \$10.10 - \$10.83 | 5.22 | 27,000 | 10.30 | 25,000 | 10.30 |
| \$12.98 - \$14.52 | 6.05 | 227,000 | 13.08 | 221,000 | 13.04 |
| | 6.73 | 465,700 | \$ 9.35 | 334,200 | \$ 11.28 |

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

| | Year Ended March 31, 2010 | Year Ended March 31, 2009 |
|---|------------------------------|------------------------------|
| Stock options fully vested and expected to vest: | | |
| Number | 458,475 | 368,271 |
| Weighted average exercise price | \$ 9.42 | \$ 11.01 |
| Aggregate intrinsic value (1) | \$ - | \$ - |
| Weighted average contractual term of options (years) | 6.69 | 6.33 |
| Stock options fully vested and currently exercisable: | | |
| Number | 334,200 | 318,896 |
| Weighted average exercise price | \$ 11.28 | \$ 11.46 |
| Aggregate intrinsic value (1) | \$ - | \$ - |
| Weighted average contractual term of options (years) | 5.70 | 5.93 |

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

There were no stock options exercised for the year ended March 31, 2010. The total intrinsic value of stock options exercised was \$31,000 and \$613,000 for the years ended March 31, 2009 and 2008, respectively.

16. EMPLOYEE STOCK OWNERSHIP PLAN

The Company sponsors an ESOP that covers all employees with at least one year and 1,000 hours of service who are over the age of 21. Shares are released and allocated to participant accounts on December 31 of each year until 2017. ESOP compensation expense included in salaries and employee benefits was \$73,000, \$43,000 and \$414,000 for years ended March 31, 2010, 2009 and 2008, respectively.

ESOP share activity is summarized in the following table:

| | Fair Value of Unreleased Shares | Unreleased ESOP Shares | Allocated and Released Shares | Total |
|---------------------------------|--|------------------------------|--|---------|
| Balance, March 31, 2007 | \$4,319,000 | 270,963 | 691,621 | 962,584 |
| Allocation December 31, 2007 | | (24,633) | 24,633 | - |
| Balance, March 31, 2008 | \$2,458,000 | 246,330 | 716,254 | 962,584 |
| Allocation December 31, 2008 | | (24,633) | 24,633 | - |

| | | | | |
|---------------------------------|------------|----------|---------|---------|
| Balance, March 31, 2009 | \$ 858,000 | 221,697 | 740,887 | 962,584 |
| Allocation December 31, 2009 | | (24,633) | 24,633 | - |
| Balance, March 31, 2010 | \$ 453,000 | 197,064 | 765,520 | 962,584 |

17. SHAREHOLDERS' EQUITY AND REGULATORY CAPITAL REQUIREMENTS

The Company's Board authorized 250,000 shares of serial preferred stock as part of the Conversion and Reorganization completed on September 30, 1997. No preferred shares were issued or outstanding at March 31, 2010 or 2009.

The Bank is subject to various regulatory capital requirements administered by the Office of Thrift Supervision ("OTS"). Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, core capital to total assets and tangible capital to tangible assets (set forth in the table below). Management believes the Bank meets all capital adequacy requirements to which it is subject as of March 31, 2010.

As of March 31, 2010, the most recent notification from the OTS categorized the Bank as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” the Bank must maintain minimum total capital and Tier I capital to risk weighted assets, core capital to total assets and tangible capital to tangible assets (set forth in the table below).

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

| | Actual | | For Capital Adequacy Purposes | | “Well Capitalized” Under Prompt Corrective Action | |
|-------------------------------|-----------|--------|-------------------------------|-------|---|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| March 31, 2010 | | | | | | |
| Total Capital: | | | | | | |
| (To Risk-Weighted Assets) | \$ 89,048 | 12.11% | \$ 58,835 | 8.0% | \$ 73,544 | 10.0% |
| Tier 1 Capital: | | | | | | |
| (To Risk-Weighted Assets) | 79,801 | 10.85 | 29,417 | 4.0 | 44,126 | 6.0 |
| Tier 1 Capital (Leverage): | | | | | | |
| (To Adjusted Tangible Assets) | 79,801 | 9.84 | 32,453 | 4.0 | 40,566 | 5.0 |
| Tangible Capital: | | | | | | |
| (To Tangible Assets) | 79,801 | 9.84 | 12,170 | 1.5 | N/A | N/A |

| | Actual | | For Capital Adequacy Purposes | | “Well Capitalized” Under Prompt Corrective Action | |
|-------------------------------|-----------|--------|-------------------------------|-------|---|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| March 31, 2009 | | | | | | |
| Total Capital: | | | | | | |
| (To Risk-Weighted Assets) | \$ 94,654 | 11.46% | \$ 66,080 | 8.0% | \$ 82,599 | 10.0% |
| Tier 1 Capital: | | | | | | |
| (To Risk-Weighted Assets) | 84,300 | 10.21 | 33,040 | 4.0 | 49,560 | 6.0 |
| Tier 1 Capital (Leverage): | | | | | | |
| (To Adjusted Tangible Assets) | 84,300 | 9.50 | 35,502 | 4.0 | 44,377 | 5.0 |
| Tangible Capital: | | | | | | |
| (To Tangible Assets) | 84,300 | 9.50 | 13,313 | 1.5 | N/A | N/A |

At periodic intervals, the OTS and the FDIC routinely examine the Company’s Consolidated Financial Statements as part of their legally prescribed oversight of the savings and loan industry. Based on their examinations, these regulators can direct that the Company’s Consolidated Financial Statements be adjusted in accordance with their findings. A future examination by the OTS or the FDIC could include a review of certain transactions or other amounts reported in the Company’s 2010 Consolidated Financial Statements.

At March 31, 2010, the Company had 125,000 shares of its outstanding common stock available for repurchase under the June 21, 2007 Board approved stock repurchase plan of 750,000 shares. Stock repurchases are subject to non-objection of the OTS. The following table summarizes the Company’s common stock repurchased in each of the following periods (dollars in thousands):

| | Shares | Value |
|------|--------|-------|
| 2010 | - | \$ - |
| 2009 | - | \$ - |

| | | |
|------|---------|----------|
| 2008 | 875,000 | \$12,643 |
|------|---------|----------|

18. EARNINGS PER SHARE

Basic earning per share (“EPS”) is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Diluted EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares and common stock equivalents for items that are dilutive, net of shares assumed to be repurchased using the treasury stock method at the average share price for the Company’s common stock during the period. Common stock equivalents arise from assumed conversion of outstanding stock options. ESOP shares are not considered outstanding for EPS purposes until they are committed to be released. For the years ended March 31, 2010 and 2009, stock options for 414,000 and

385,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive.

| (Dollars and share data in thousands, except per share data) | Years Ended March 31, | | |
|--|-----------------------|------------|----------|
| | 2010 | 2009 | 2008 |
| Basic EPS computation: | | | |
| Numerator-net income (loss) | \$ (5,444) | \$ (2,650) | \$ 8,644 |
| Denominator-weighted average common shares outstanding | 10,721 | 10,694 | 10,915 |
| Basic EPS | \$ (0.51) | \$ (0.25) | \$ 0.79 |
| Diluted EPS computation: | | | |
| Numerator-net income (loss) | \$ (5,444) | \$ (2,650) | \$ 8,644 |
| Denominator-weighted average common shares outstanding | 10,721 | 10,694 | 10,915 |
| Effect of dilutive stock options | - | - | 92 |
| Weighted average common shares and common stock equivalents | | | |
| | 10,721 | 10,694 | 11,007 |
| Diluted EPS | \$ (0.51) | \$ (0.25) | \$ 0.79 |

19. 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 assets that are measured at fair value on a recurring basis (in thousands).

| Fair value measurements at March 31, 2010, using | | |
|--|-------|-------------|
| Quoted prices in | Other | Significant |

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| | Fair value | active markets | observable | unobservable |
|---|----------------|------------------|------------|--------------|
| | March 31, 2010 | for | inputs | inputs |
| | | identical assets | (Level 2) | (Level 3) |
| | | (Level 1) | | |
| Investment securities available for sale | | | | |
| Trust preferred | \$ 1,042 | - | \$ - | \$ 1,042 |
| Agency securities | 5,017 | - | 5,017 | - |
| Municipal bonds | 743 | - | 743 | - |
| Mortgage-backed securities available for sale | | | | |
| Real estate mortgage investment conduits | 556 | - | 556 | - |
| FHLMC mortgage-backed securities | 2,219 | - | 2,219 | - |
| FNMA mortgage-backed securities | 53 | - | 53 | - |
| Total recurring assets measured at fair value | \$ 9,630 | \$ - | \$ 8,588 | \$ 1,042 |

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The following table presents a reconciliation of assets that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended March 31, 2010 (in thousands). There were no transfers of assets in to or out of Level 3 for the year ended March 31, 2010.

| | |
|--|--|
| | For the Year Ended March 31, 2010 |
| Balance at March 31, 2009 | \$ 1,144 |
| Transfers in to Level 3 | - |
| Included in earnings (1) | (1,003) |
| Included in other comprehensive income (2) | 901 |
| Balance at March 31, 2010 | \$ 1,042 |

(1) Included in other non-interest income

(2) Includes the reversal of previously recorded OTTI

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

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

The following table represents certain loans and REO, which were marked down to their fair value for the year ended March 31, 2010. The following assets are measured at fair value on a nonrecurring basis (in thousands).

| | Fair value measurements at March 31, 2010, using | | | |
|----------------------------------|---|----------------------------|---------------------------------------|-----------|
| | Quoted prices in active markets for identical assets | Other observable inputs | Significant unobservable inputs | |
| Fair value March 31, 2010 | (Level 1) | (Level 2) | (Level 3) | |
| Loans measured for impairment \$ | 24,505 | \$ - | \$ - | \$ 24,505 |

| | | | | |
|---|-----------|------|------|-----------|
| Real estate owned | 14,540 | - | - | 14,540 |
| Total nonrecurring assets measured at fair value | \$ 39,045 | \$ - | \$ - | \$ 39,045 |

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

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

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

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with applicable accounting standards. The Company, using available market information and appropriate valuation methodologies, has determined the estimated fair value amounts. However, considerable judgment is necessary to interpret market data in the development of the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in the future. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

| | March 31, | | | |
|---|----------------|------------|----------------|------------|
| | 2010 | | 2009 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets: | | | | |
| Cash | \$ 13,587 | \$ 13,587 | \$ 19,199 | \$ 19,199 |
| Investment securities held to maturity | 517 | 573 | 529 | 552 |
| Investment securities available for sale | 6,802 | 6,802 | 8,490 | 8,490 |
| Mortgage-backed securities held to maturity | 259 | 265 | 570 | 572 |
| Mortgage-backed securities available for sale | 2,828 | 2,828 | 4,066 | 4,066 |
| Loans receivable, net | 712,837 | 631,706 | 784,117 | 733,436 |
| Loans held for sale | 255 | 255 | 1,332 | 1,332 |
| Mortgage servicing rights | 509 | 1,015 | 468 | 929 |
| Liabilities: | | | | |
| Demand – savings deposits | 396,342 | 396,342 | 392,389 | 392,389 |
| Time deposits | 291,706 | 294,337 | 277,677 | 281,120 |
| FHLB advances | 23,000 | 23,006 | 37,850 | 37,869 |
| FRB borrowings | 10,000 | 9,998 | 85,000 | 84,980 |
| Junior subordinated debentures | 22,681 | 14,124 | 22,681 | 12,702 |

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

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

Cash - Fair value approximates the carrying amount.

Investments and Mortgage-Backed Securities - Fair values were based on quoted market rates and dealer quotes. The fair value of the trust preferred investment was determined using a discounted cash flow method (see also Note 19 – Fair Value Measurements).

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

Mortgage Servicing Rights - The fair value of MSR's was determined using the Company's model, which incorporates the expected life of the loans, estimated cost to service the loans, servicing fees received and other factors. The Company calculates MSR's fair value by stratifying MSR's based on the predominant risk characteristics that include the underlying loan's interest rate, cash flows of the loan, origination date and term. Key economic assumptions that vary due to changes in market interest rates are used to determine the fair value of the MSR's and include expected prepayment speeds, which impact the average life of the portfolio, annual service cost, annual ancillary income and the discount rate used in valuing the cash flows. At March 31, 2010, the MSR's fair value totaled \$1.0 which was estimated using a range of prepayment speed assumptions values that ranged from 170 to 695.

Deposits - The fair value of deposits with no stated maturity such as non-interest-bearing demand deposits, interest checking, money market and savings accounts was equal to the amount payable on demand. The fair value of time

deposits with stated maturity was based on the discounted value of contractual cash flows. The discount rate was estimated using rates currently available in the local market.

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

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

Junior Subordinated Debentures - The fair value of the Debentures was based on the discounted cash flow method. Management believes that the discount rate utilized is indicative of those that would be used by market participants for similar types of debentures.

Off-Balance Sheet Financial Instruments - The estimated fair value of loan commitments approximates fees recorded associated with such commitments as of March 31, 2010 and 2009. Since the majority of the Bank's off-balance-sheet instruments consist of non-fee producing, variable rate commitments, the Bank has determined they do not have a distinguishable fair value.

21. COMMITMENTS AND CONTINGENCIES

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. Those 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 those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. Commitments to originate loans 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.

At March 31, 2010, the Company had outstanding commitments to extend credit totaling \$12.4 million, unused lines of credit totaling \$78.4 million and undisbursed construction loans totaling \$13.2 million.

The allowance for unfunded loan commitments was \$185,000 at March 31, 2010.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those 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 as specified above, and is required in instances where the Bank deems necessary. At March 31, 2010 and 2009, standby letters of credit totaled \$1.4 million and \$1.8 million, respectively.

At March 31, 2010, the Company had firm commitments to sell \$673,000 of residential loans to FHLMC. Typically, these agreements are short term fixed rate commitments and no material gain or loss is likely.

In connection with certain asset sales, the Bank typically makes representation 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. As of March 31, 2010, loans under warranty totaled \$115.4 million, which substantially represents the unpaid principal balance of the Bank's loans serviced for FHLMC. The Bank believes that the potential for loss under these arrangements is remote. Accordingly, no contingent liability is recorded in the Consolidated Financial Statements.

The Bank is a public depository and, accordingly, accepts deposit and other public funds belonging to, or held for the benefit of, Washington and Oregon states, political subdivisions thereof and, municipal corporations. In accordance with applicable state law, in the event of default of a participating bank, all other participating banks in the state collectively assure that no loss of funds are suffered by any public depositor. Generally, in the event of default by a public depository, the assessment attributable to all public depositories is allocated on a pro rata basis in proportion to the maximum liability of each depository as it existed on the date of loss. The Company has not incurred any losses related to public depository funds for the years ended March 31, 2010, 2009 and 2008.

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.

The Bank has entered into employment contracts with certain key employees, which provide for contingent payment subject to future events.

22. RIVERVIEW BANCORP, INC. (PARENT COMPANY)

BALANCE SHEETS

MARCH 31, 2010 AND 2009

| (Dollars in thousands) | 2010 | 2009 |
|---|-------------------|-------------------|
| ASSETS | | |
| Cash (including interest earning accounts of \$159 and \$1,073) | \$ 190 | \$ 1,105 |
| Investment in the Bank | 104,724 | 108,967 |
| Other assets | 1,765 | 1,352 |
| TOTAL ASSETS | \$ 106,679 | \$ 111,424 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|-------------------|-------------------|
| Accrued expenses and other liabilities | \$ 59 | \$ 68 |
| Deferred income taxes | 5 | 12 |
| Borrowings | 22,681 | 22,681 |
| Shareholders' equity | 83,934 | 88,663 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 106,679 | \$ 111,424 |

STATEMENTS OF OPERATIONS YEARS ENDED MARCH 31, 2010, 2009 AND 2008

| (Dollars in thousands) | 2010 | 2009 | 2008 |
|--|--------------|--------------|--------------|
| INCOME: | | | |
| Dividend income from Bank | \$ 300 | \$ - | \$ 6,386 |
| Interest on investment securities and other short-term investments | 37 | 114 | 468 |
| Interest on loan receivable from the Bank | 77 | 86 | 94 |
| Total income | 414 | 200 | 6,948 |
| EXPENSE: | | | |
| Management service fees paid to the Bank | 143 | 143 | 143 |
| Other expenses | 1,318 | 1,656 | 1,636 |
| Total expense | 1,461 | 1,799 | 1,779 |

| | | | |
|---|------------|------------|----------|
| INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY | | | |
| IN UNDISTRIBUTED INCOME OF THE BANK |) |) | |
| | (1,047 | (1,599 | 5,169 |
| BENEFIT FOR INCOME TAXES | (458) | (544) | (426) |
| INCOME (LOSS) OF PARENT COMPANY |) |) | |
| | (589 | (1,055 | 5,595 |
| EQUITY IN UNDISTRIBUTED INCOME (LOSS) OF THE BANK |) |) | |
| | (4,855 | (1,595 | 3,049 |
| NET INCOME (LOSS) | \$ (5,444) | \$ (2,650) | \$ 8,644 |

RIVERVIEW BANCORP, INC. (PARENT COMPANY)

STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2010, 2009 AND 2008

| (Dollars in thousands) | 2010 | 2009 | 2008 |
|--|---------------|-----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income (loss) | \$ (5,444) | \$ (2,650) | \$ 8,644 |
| Adjustments to reconcile net income cash provided by operating activities: | | | |
| Equity in undistributed (earnings) loss of the Bank | 4,855 | 1,595 | (3,049) |
| Provision for deferred income taxes | (7) | - | 34 |
| Earned ESOP shares | 73 | 43 | 414 |
| Stock based compensation | 112 | - | - |
| Changes in assets and liabilities | | | |
| Other assets | (413) | 965 | (445) |
| Accrued expenses and other liabilities | (91) | (87) | (535) |
| Net cash provided by (used in) operating activities | (915) | (134) | 5,063 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Additional investment in subsidiary | - | (4,750) | - |
| Net cash used in investing activities | - | (4,750) | - |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Dividends paid | - | (2,402) | (4,740) |
| Proceeds from subordinated debentures | - | - | 15,000 |
| Repurchase of common stock | - | - | (12,643) |
| Proceeds from exercise of stock options | - | 96 | 708 |
| Net cash used in financing activities | - | (2,306) | (1,675) |
| NET INCREASE (DECREASE) IN CASH | (915) | (7,190) | 3,388 |
| CASH, BEGINNING OF YEAR | 1,105 | 8,295 | 4,907 |
| CASH, END OF YEAR | \$ 190 | \$ 1,105 | \$ 8,295 |

RIVERVIEW BANCORP, INC.
SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED):

(Dollars in thousands, except share data)

Three Months Ended

| | March 31 | December 31 | September 30 | June 30 |
|--|-------------------|-------------------|-------------------|---------------|
| Fiscal 2010: | | | | |
| Interest income | \$ 11,058 | \$ 11,513 | \$ 11,797 | \$ 11,894 |
| Interest expense | 2,491 | 2,787 | 2,884 | 3,214 |
| Net interest income | 8,567 | 8,726 | 8,913 | 8,680 |
| Provision for loan losses | 5,850 | 4,500 | 3,200 | 2,350 |
| Non-interest income | 1,846 | 1,522 | 1,795 | 2,103 |
| Non-interest expense | 11,926 | 7,792 | 7,267 | 7,988 |
| Income before income taxes | (7,363) | (2,044) | 241 | 445 |
| Provision (benefit) for income taxes | (2,660) | (758) | 39 | 102 |
| Net income (loss) | \$ (4,703) | \$ (1,286) | \$ 202 | \$ 343 |
| Basic earnings (loss) per share | | | | |
| (1) | \$ (0.44) | \$ (0.12) | \$ 0.02 | \$ 0.03 |
| Diluted earnings (loss) per share | | | | |
| (1) | \$ (0.44) | \$ (0.12) | \$ 0.02 | \$ 0.03 |
| Fiscal 2009: | | | | |
| Interest income | \$ 12,383 | \$ 13,172 | \$ 13,729 | \$ 13,566 |
| Interest expense | 4,096 | 4,801 | 5,087 | 5,199 |
| Net interest income | 8,287 | 8,371 | 8,642 | 8,367 |
| Provision for loan losses | 5,000 | 1,200 | 7,200 | 2,750 |
| Non-interest income | 2,759 | 1,902 | (1,313) | 2,182 |
| Non-interest expense | 6,977 | 6,907 | 6,708 | 6,667 |
| Income before income taxes | (931) | 2,166 | (6,579) | 1,132 |
| Provision (benefit) for income taxes | (211) | 691 | (2,381) | 339 |
| Net income (loss) | \$ (720) | \$ 1,475 | \$ (4,198) | \$ 793 |
| Basic earnings (loss) per share | | | | |
| (1) | \$ (0.07) | \$ 0.14 | \$ (0.39) | \$ 0.07 |
| Diluted earnings (loss) per share | | | | |
| (1) | \$ (0.07) | \$ 0.14 | \$ (0.39) | \$ 0.07 |

(1) Quarterly earnings per share may vary from annual earnings per share due to rounding.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not Applicable

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures: An evaluation of the Company's disclosure controls and procedures (as defined in Section 13(a)-15(e) of the Securities Exchange Act of 1934) was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management as of the end of the period covered by this report. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as in effect on March 31, 2010, were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Securities and Exchange Act of 1934 is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms as of the end of the period covered by this report.

The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud,

if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

(b) Changes in Internal Controls: There was no change in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

(c) Management's Annual Report on Internal Control Over Financial Reporting:

The management of Riverview Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system has been designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of the company's published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The management of Riverview Bancorp, Inc. has assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2010. To make the assessment, we used the criteria for effective internal control over financial reporting described in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of March 31, 2010, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm that audits the Company's consolidated financial statements has audited the Company's internal control over financial reporting as of March 31, 2010, as stated in their report appearing below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Riverview Bancorp, Inc.
Vancouver, Washington

We have audited the internal control over financial reporting of Riverview Bancorp, Inc. and subsidiary (the "Company") as of March 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2010, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended March 31, 2010 of the Company and our report dated May 28, 2010 expressed an unqualified opinion on those financial statements.

/s/Deloitte & Touche LLP

Portland, Oregon

May 28, 2010

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Item 9B. Other Information

There was no information to be disclosed by the Company in a report on Form 8-K during the fourth quarter of fiscal year 2010 that was not so disclosed.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the section captioned "Proposal I - Election of Directors" contained in the Company's Proxy Statement for the 2010 Annual Meeting of Stockholders, and "Part I -- Business -- Personnel -- Executive Officers" of this Form 10-K, is incorporated herein by reference. Reference is made to the cover page of this Form 10-K for information regarding compliance with Section 16(a) of the Exchange Act.

Code of Ethics

In December 2003, the Board of Directors adopted the Officer and Director Code of Ethics. The code is applicable to each of the Company's officers, including the principal executive officer and senior financial officers, and requires individuals to maintain the highest standards of professional conduct. A copy of the Code of Ethics is available on the Company's website at www.riverviewbank.com.

Audit Committee Matters and Audit Committee Financial Expert

The Company has a separately-designated standing Audit Committee, composed of Directors Edward R. Geiger, Paul L. Runyan and Jerry C. Olson. Each member of the Audit Committee is "independent" as defined in the Nasdaq Stock Market Listing Standards. The Company's Board of Directors has Mr. Geiger, Audit Committee Chairman, as its financial expert, as defined in SEC's Regulation S-K.

Nomination Procedures

There have been no material changes to the procedures by which shareholders may recommend nominees to the Company's Board of Directors.

Item 11. Executive Compensation

The information set forth under the sections captioned "Executive Compensation" and "Directors' Compensation" under "Proposal I - Election of Directors" in the Proxy Statement for the 2010 Annual Meeting of Stockholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement for the 2010 Annual Meeting of Stockholders is incorporated herein by reference.

Equity Compensation Plan Information. The following table summarizes share and exercise price information about the Company's equity compensation plan as of March 31, 2010.

| Plan category | Number of securities to be issued upon exercise of outstanding options | Weighted-average price of outstanding options | Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (A) |
|---|--|---|---|
| | (A) | (B) | (C) |
| Equity compensation plans approved by security holders: | | | |
| 2003 Stock Option Plan | 334,000 | 9.63 | 78,154 |
| 1998 Stock Option Plan | 131,700 | 8.64 | - |
| Equity compensation plans not approved by security holders: | - | - | - |
| Total | 465,700 | | 78,154 |

Item 13. Certain Relationships and Related Transactions; and Director Independence

The information set forth under the headings "Related Party Transactions" and "Director Independence" in the Proxy Statement for the 2010 Annual Meeting of Stockholders is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information set forth under the section captioned "Independent Auditor" in the Proxy statement for the 2010 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) 1. Financial Statements

See "Part II –Item 8. Financial Statements and Supplementary Data."

2. Financial Statement Schedules

All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

3. Exhibits

| | |
|------|---|
| 3.1 | Articles of Incorporation of the Registrant (1) |
| 3.2 | Bylaws of the Registrant (1) |
| 4 | Form of Certificate of Common Stock of the Registrant (1) |
| 10.1 | Form of Employment Agreement between the Bank and each of Patrick Sheaffer, Ronald A. Wyseske, David A. Dahlstrom and John A. Karas (2) |
| 10.2 | Employee Severance Compensation Plan (3) |
| 10.3 | Employee Stock Ownership Plan (4) |
| 10.4 | 1998 Stock Option Plan (5) |
| 10.5 | 2003 Stock Option Plan (6) |
| 10.6 | Form of Incentive Stock Option Award Pursuant to 2003 Stock Option Plan (7) |
| 10.7 | Form of Non-qualified Stock Option Award Pursuant to 2003 Stock Option Plan (7) |
| 11 | Statement of recomputation of per share earnings (See Note 18 of the Notes to Consolidated Financial Statements contained herein.) |
| 21 | Subsidiaries of Registrant (8) |
| 23 | Consent of Independent Registered Public Accounting Firm |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act |

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

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Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, and incorporated herein by reference.

(8) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended March 31, 2007, and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RIVERVIEW BANCORP, INC.

Date: May 27, 2010

By: /s/ Patrick Sheaffer
Patrick Sheaffer
Chairman of the Board and
Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Patrick Sheaffer
Patrick Sheaffer
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Ronald A. Wysaske
Ronald A. Wysaske
President and Chief Operating Officer
Director

Date: May 27, 2010

Date: May 27, 2010

By: /s/ Kevin J. Lycklama
Kevin J. Lycklama
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting
Officer)

By: /s/ Paul L. Runyan
Paul L. Runyan
Vice Chairman of the Board and
Director

Date: May 27, 2010

Date: May 27, 2010

By: /s/ Gary R. Douglass
Gary R. Douglass
Director

By: /s/ Edward R. Geiger
Edward R. Geiger
Director

Date: May 27, 2010

Date: May 27, 2010

By: /s/ Michael D. Allen
Michael D. Allen
Director

By: /s/ Jerry C. Olson
Jerry C. Olson
Director

Date: May 27, 2010

Date: May 27, 2010

By: /s/ Gerald L. Nies
Gerald L. Nies
Director

Date: May 27, 2010

EXHIBIT INDEX

| | |
|-----------------|--|
| Exhibit 23 | Consent of Independent Registered Public Accounting Firm |
| Exhibit 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 32 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |