RIVERVIEW BANCORP INC
Form 10-K
June 13, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended March 31, 2014OR

[ ] 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	91-1838969
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. Number)
900 Washington St., Ste. 900, Vancouver, Washington	98660
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(360) 693-6650
Securities registered pursuant to Section 12(b) of the Act:	
Common Stock, Par Value $.01 per share	Nasdaq Stock Market LLC
(Title of Each Class)	(Name of Each Exchange on Which Registered)
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 [X]

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 [X]

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

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

Indicate by check mark 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 [X]

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 [X]

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

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, 2013 was $59,101,071 (22,471,890 shares at $2.63 per share). As of May 31, 2014, there were issued and outstanding 22,471,890 shares of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of registrant's Definitive Proxy Statement for the 2014 Annual Meeting of Shareholders (Part III).

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Special Note Regarding Forward-Looking Statements

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

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

The Company cautions readers not to place undue reliance on any forward-looking statements. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company. The Company does not undertake to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These risks could cause our actual results for fiscal 2015 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of, us, and could negatively affect the Company's financial condition and results of operations as well as its stock price performance.

PART I

Item 1. Business

General

Riverview Bancorp, Inc., a Washington corporation, is the savings and loan holding company of Riverview Community Bank (the "Bank"). At March 31, 2014, the Company had total assets of $824.5 million, total deposit accounts of $690.1 million and shareholders' equity of $98.0 million. The Company's executive offices are located in Vancouver Washington.

The Company is subject to regulation by the Board of Governors of the Federal Reserve Systems ("Federal Reserve"). Substantially all of the Company's business is conducted through the Bank which is regulated by the Office of the Comptroller of the Currency ("OCC"), 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 of Seattle ("FHLB") 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 and Marion counties of Oregon as its primary market area. The counties of Multnomah, Clark and Skamania are part of the Portland metropolitan area as defined by the U.S. Census Bureau. 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 business, commercial real estate, multi-family real estate, real estate construction, residential real estate and other consumer loans. The Company's strategy over the past several years has been to control balance sheet growth, including the targeted reduction of residential construction related loans, in order to improve its regulatory capital ratios. The Company's loan portfolio totaled $520.9 million at March 31, 2014 compared to $520.4 million a year ago.

Most recently, the Company's primary focus has been on increasing commercial business loans and owner occupied commercial real estate loans with a specific focus on medical professionals and the medical industry. The Company also purchased two separate pools of automobile loans during fiscal 2014 totaling $22.1 million from another financial institution as a way to further diversify its loan portfolio and to earn a higher yield than earned on its cash or short-term investments.

The Company's strategic plan includes targeting the commercial banking customer base in its primary market area for loan originations and deposit growth, specifically small and medium size businesses, professionals and wealth building individuals. In pursuit of these goals, the Company will seek to increase the loan portfolio consistent with its strategic plan and asset/liability and regulatory capital objectives, which includes maintaining a significant amount of commercial and commercial real estate loans in its loan portfolio. Significant portions of our new loan originations carry adjustable rates, higher yields or shorter terms and higher credit risk than traditional fixed-rate mortgages.

At March 31, 2014, checking accounts totaled $233.2 million, or 33.8% of our total deposit mix compared to $204.3 million or 30.8% a year ago. Our strategic plan also stresses increased emphasis on non-interest income, including increased fees for asset management through the Bank's subsidiary, Riverview Asset Management Corp. ("RAMCorp") a trust and financial services company, 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. We believe we are well positioned to attract new customers and to increase our market share through our 18 branches, including ten in Clark County, three in the Portland metropolitan area and three lending centers, including our most recently opened full-service branch in Gresham, Oregon.

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Market Area

The Company conducts operations from its home office in Vancouver and 18 branch offices located in Camas, Washougal, Stevenson, White Salmon, Battle Ground, Goldendale, Vancouver (seven branch offices) and Longview, Washington and Portland, Gresham, Wood Village and Aumsville, Oregon. RAMCorp, our trust and financial services company is 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 one lending office in Vancouver and one lending office in Portland, Oregon offers commercial and business banking services. The Bank also operates a lending office for mortgage banking activities in Vancouver.

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, Barrett Business Services, PeaceHealth and Fisher Investments, 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.

Economic conditions in the Company's market areas have continued to improve from the recent recessionary downturn; however, the pace of recovery has been modest and uneven and ongoing stress in the economy will likely continue to be challenging going forward. Unemployment in the Company's market areas decreased in both Clark County, Washington and Portland, Oregon. According to the Washington State Employment Security Department, unemployment in Clark County decreased to 7.5% at March 31, 2014 compared to 10.1% at March 31, 2013. According to the Oregon Employment Department, unemployment in Portland decreased to 6.9% at March 31, 2014 compared to 7.5% at March 31, 2013. According to the Regional Multiple Listing Services ("RMLS"), residential home inventory levels in Portland, Oregon have slightly decreased to 3.1 months at March 31, 2014 compared to 3.2 months at March 31, 2013. Residential home inventory levels in Clark County have slightly increased to 4.6 months at March 31, 2014 compared to 4.4 months at March 31, 2013. According to the RMLS, closed home sales in Clark County remained constant during March 2014 compared to March 2013. Closed home sales at March 2014 in Portland decreased 4.0% compared to March 2013. Commercial real estate leasing activity in the Portland/Vancouver area has performed better than the residential real estate market; however, it is generally affected by a slow economy later than other indicators. According to Norris Beggs Simpson (a firm specializing in Pacific Northwest commercial real estate sales and management) commercial vacancy rates in Clark County, Washington and Portland, Oregon were approximately 10.38% and 14.60%, respectively, as of March 31, 2014 compared to 12.24% and 17.11%, respectively, at March 31, 2013. The Company has also seen an increase in sales activity for building lots during the past twelve months.

Lending Activities

General. At March 31, 2014, the Company's net loans receivable totaled $520.9 million, or 63.2% 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. 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 Bank also uses commissioned loan brokers and print advertising to market its products and services. Loans are approved at various levels of management, depending upon the amount of the loan.

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Loan Portfolio Analysis. The following table sets forth the composition of the Company's loan portfolio, excluding loans held for sale, by type of loan at the dates indicated.

	At March 31,									
	2014		2013		2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Commercial and construction:										
Commercial business	$ 71,632	13.43%	$ 71,935	13.42%	$ 87,238	12.74%	$ 85,511	12.44%	$ 108,368	14.76%
Other real estate mortgage	324,881	60.90	355,397	66.30	434,763	63.49	461,955	67.19	459,178	62.52
Real estate construction	19,482	3.65	9,675	1.81	25,791	3.76	27,385	3.98	75,456	10.27
Total commercial and construction	415,995	77.98	437,007	81.53	547,792	79.99	574,851	83.61	643,002	87.55
Consumer:										
Real estate one-to-four family	93,007	17.43	97,140	18.12	134,975	19.71	110,437	16.06	88,861	12.10
Other installment	24,486	4.59	1,865	0.35	2,042	0.30	2,289	0.33	2,616	0.35
Total consumer loans	117,493	22.02	99,005	18.47	137,017	20.01	112,726	16.39	91,477	12.45
Total loans	533,488	100.00%	536,012	100.00%	684,809	100.00%	687,577	100.00%	734,479	100.00%
Less:										
Allowance for loan losses	12,551		15,643		19,921		14,968		21,642	
Total loans receivable, net	$ 520,937		$ 520,369		$ 664,888		$ 672,609		$ 712,837	

Loan Portfolio Composition. The following tables set forth the composition of the Company's commercial and construction loan portfolio based on loan purpose at the dates indicated.

March 31, 2014	Commercial	Other Real Estate Mortgage	Real Estate Construction	Commercial & Construction Total
	(In thousands)			
Commercial business	$ 71,632	$ -	$ -	$ 71,632
Commercial construction	-	-	15,618	15,618
Office buildings	-	77,476	-	77,476
Warehouse/industrial	-	45,632	-	45,632
Retail/shopping centers/strip malls	-	63,049	-	63,049
Assisted living facilities	-	7,585	-	7,585
Single purpose facilities	-	93,766	-	93,766
Land	-	16,245	-	16,245
Multi-family	-	21,128	-	21,128
One-to-four family construction	-	-	3,864	3,864
Total	$ 71,632	$ 324,881	$ 19,482	$ 415,995
March 31, 2013				
Commercial business	$71,935	$-	$-	$71,935
Commercial construction	-	-	5,719	5,719
Office buildings	-	86,751	-	86,751
Warehouse/industrial	-	41,124	-	41,124
Retail/shopping centers/strip malls	-	67,472	-	67,472
Assisted living facilities	-	13,146	-	13,146
Single purpose facilities	-	89,198	-	89,198
Land	-	23,404	-	23,404
Multi-family	-	34,302	-	34,302
One-to-four family construction	-	-	3,956	3,956
Total	$71,935	$355,397	$9,675	$437,007

Commercial Business Lending. At March 31, 2014, the commercial business loan portfolio totaled $71.6 million or 13.4% of total loans. 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. Commercial business loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The borrower’s cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Although commercial 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, 2014, the other real estate lending portfolio totaled $324.9 million, or 60.9% of total loans. The Company originates other real estate loans including office buildings, warehouse/industrial, retail, assisted living facilities and single-purpose facilities (collectively "commercial real estate loans"); as well as land and multi-family loans primarily located in its market area. At March 31, 2014, owner occupied properties accounted for 32.7% and non-owner occupied properties accounted for 67.3% of the Company's commercial real estate portfolio.

Commercial real estate and multi-family 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. As a result, commercial real estate and multi-family loans are generally priced at a higher rate of interest than residential one-to-four family 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. 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. 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. Loans are secured by first mortgages and often require specified debt service coverage ("DSC") ratios depending on the characteristics of the collateral. The Company generally imposes a minimum DSC ratio of 1.20 for loans secured by income producing properties. Rates and other terms on such loans generally depend on our assessment of credit risk after considering such factors as the borrower's financial condition and credit history, loan-to-value ratio, DSC ratio and other factors.

The Company actively pursues commercial real estate loans. New loan originations within the Company's market area were very competitive in fiscal year 2014 as stabilizing economic conditions resulted in an increase in loan demand from creditworthy borrowers and permitted existing borrowers with nonaccrual loans to return to a current payment status and refinance elsewhere. At March 31, 2014, the Company had eight commercial real estate loans totaling $8.1 million on non-accrual status compared to six commercial real estate loans totaling $10.3 million at March 31, 2013. For more information concerning risks related to commercial real estate loans, see Item 1A. "Risk Factors – 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 purchases and infrastructure development of properties (i.e. roads, utilities, etc.) with the aim of making improved lots ready for subsequent sales 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. In recent months, statistics reflect an increase in demand and sales of building lots in the Company's primary market area resulting in an increase in the number of closed sales for land and building lots as compared to previous years. The Company has been successful in reducing its exposure to land acquisition and development loans and plans to only originate these loans on a limited basis to developers that meet the Company's underwriting standards. At March 31, 2014, land acquisition and development loans totaled $16.2 million, or 3.05% of total loans compared to $23.4 million, or 4.37% of total loans at March 31, 2013. The largest land acquisition and development loan had an outstanding balance at March 31, 2014 of $3.1 million and was performing according to its original payment terms. At March 31, 2014 all of the land acquisition and development loans were secured by properties located in Washington and Oregon. At March 31, 2014, the Company had one land acquisition and development loan totaling $800,000 on non-accrual status compared to five land acquisition and development loans totaling $3.3 million on non-accrual status at March 31, 2013.

Real Estate Construction. 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 undisbursed funds was as follows:

	At March 31,			
	2014		2013	
	Amount (1)	Percent	Amount (1)	Percent
	(Dollars in thousands)			
Speculative construction	$ 4,771	9.54%	$ 5,718	35.77%

Commercial/multi-family construction	44,281	88.57	6,495	40.63
Custom/presold construction	698	1.40	2,898	18.13
Construction/permanent	246	0.49	875	5.47
Total	$ 49,996	100.00%	$ 15,986	100.00%

(1) Includes undisbursed funds of $30.5 million and $6.3 million at March 31, 2014 and 2013, respectively.

The Company has continued to focus on managing the residential construction and commercial construction loan portfolios. At March 31, 2014, the balance of the Company's construction loan portfolio, including loan commitments, was $50.0 million compared to $16.0 million at March 31, 2013. The $34.0 million increase was primarily due to an increase in commercial and multi-family construction loans originated in fiscal year 2014 reflecting the improvement in economic conditions in our market areas. The Company plans to continue to proactively manage its construction loan portfolio in fiscal year 2015 and will continue to originate new construction loans to selected customers.

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 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. The largest speculative construction loan at March 31, 2014 was a loan to finance the construction of 37 townhouses totaling $2.5 million. This loan is to a single borrower that is secured by properties located in the Company’s market area. At March 31, 2014, the Company had no speculative construction loans on non-accrual.

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

	Northwest Oregon	Other Oregon	Southwest Washington	Other Washington	Other	Total
March 31, 2014			(In thousands)			
Land development	$2,676	$1,184	$12,385	$-	$-	$16,245
Speculative construction	-	-	3,617	-	30	3,647
Total land and speculative construction	$2,676	$1,184	$16,002	$-	$30	$19,892
March 31, 2013						
Land development	$4,674	$1,339	$17,391	$-	$-	$23,404
Speculative construction	-	175	3,011	291	-	3,477
Total land and speculative construction	$4,674	$1,514	$20,402	$291	$-	$26,881

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, 2014, and March 31, 2013, the Company had no custom construction loans in its portfolio.

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. For adjustable rate loans, the interest rates adjust on their first adjustment date. See “—Mortgage Brokerage,” and “—Mortgage Loan Servicing.” At March 31, 2014, a single construction/permanent loan totaled $221,000 and was performing according to its original repayment terms. At March 31, 2013, construction/permanent loans totaled $479,000 of which the largest had an outstanding balance of $400,000 and was performing according to its original repayment terms.

The Company provides construction financing for non-residential business properties and multi-family dwellings. At March 31, 2014, such loans totaled $15.6 million, or 80.17% of total real estate construction loans and 2.93% of total loans. Borrowers may be the business owner/occupier of the building who intends to operate their 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, 2014, the largest commercial construction loan had a balance of $3.4 million and was performing according to its original repayment terms. At March 31, 2014, the Company had no commercial construction loans on non-accrual status.

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 the 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 – Our real estate construction and land acquisition and development 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 $117.5 million at March 31, 2014, comprised of $69.8 million of one-to-four family mortgage loans, $20.3 million of home equity lines of credit, $2.9 million of land loans to consumers for the future construction of one-to-four family homes and $24.5 million of other secured and unsecured consumer loans, which primarily consisted of automobile loans.

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 the one-year constant maturity U.S. Treasury index or other index. At March 31, 2014, the Company had nine residential real estate loans totaling $2.7 million on non-accrual status compared to 15 loans totaling $3.1 million at March 31, 2013. All of these loans were secured by properties located in Oregon and Washington.

The Company also made the decision during the third fiscal quarter of 2014 to purchase, from time to time, pools of automobile loans from another financial institution as a way to further diversify its loan portfolio and to earn a higher yield than on its cash or short-term investments. These indirect automobile loans are originated through a single dealership group located outside the Company's primary market area. The collateral for these loans is comprised of a mix of used automobiles. These loans are purchased with servicing retained by the seller. The Company purchased a total of $22.1 million of automobile loans during fiscal year 2014. The Company plans to purchase additional automobile loans during fiscal year 2015, subject to these loans meeting our investment criteria, underwriting standards and internal loan concentration limits. At March 31, 2014, none of the purchased automobile loans were on non-accrual status.

The Company originates a variety of installment loans, including loans for debt consolidation and other purposes, automobile loans, boat loans and savings account loans. These 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, 2014 and 2013, the Company had no installment loans on non-accrual status.

Loan Maturity. The following table sets forth certain information at March 31, 2014 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.

	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	$ 26,933	$ 12,256	$ 14,758	$ 17,554	$ 131	$ 71,632
Other real estate mortgage	45,270	54,392	125,385	96,190	3,644	324,881
Real estate construction	2,531	2,322	39	5,718	8,872	19,482
Total commercial & construction	74,734	68,970	140,182	119,462	12,647	415,995
Consumer:						
Real estate one-to-four family	1,292	5,617	1,151	8,057	76,890	93,007
Other installment	123	797	4,817	18,644	105	24,486
Total consumer	1,415	6,414	5,968	26,701	76,995	117,493
Total loans	$ 76,149	$ 75,384	$ 146,150	$ 146,163	$ 89,642	$ 533,488

The following table sets forth the dollar amount of all loans due after one year from March 31, 2014, which have fixed interest rates and have adjustable interest rates.

	Fixed Rate	Adjustable Rate	Total
		(In thousands)	
Commercial and Construction:			
Commercial business	$ 28,330	$ 16,369	$ 44,699
Other real estate mortgage	87,181	192,430	279,611
Real estate construction	13,514	3,437	16,951
Total commercial and construction	129,025	212,236	341,261
Consumer:			
Real estate one-to-four family	66,548	25,167	91,715
Other installment	23,872	491	24,363
Total consumer	90,420	25,658	116,078
Total loans	$219,445	$ 237,894	$457,339

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, 2014, the Company had outstanding commitments to originate loans of $8.1 million, compared to $29.7 million at March 31, 2013.

Mortgage Brokerage. In addition to originating mortgage loans for retention in its portfolio, the Company employs four 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 1.5% to 2.0% 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 portion of the origination fee. During the year ended March 31, 2014, brokered loans totaled $45.4 million (including $37.3 million brokered to the Company), compared to $57.6 million of brokered loans in fiscal year 2013. Gross fees of $830,000, which includes brokered loan fees and loans sold to Federal Home Loan Mortgage Company (“FHLMC”), were earned for the year ended March 31, 2014. 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, such as in fiscal 2014, 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.

Mortgage Loan Servicing. The Company is a qualified servicer for the 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 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, 2014, total loans serviced for others were $125.2 million, of which $119.2 million were serviced for the 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. Payments received on non-accrual loans are applied to reduce the outstanding principal balance on a cash-basis method.

Nonperforming assets were $21.8 million or 2.64% of total assets at March 31, 2014 compared with $36.8 million or 4.73% of total assets at March 31, 2013. The Company also had net recoveries totaling $608,000 during fiscal 2014 compared to net charge-offs totaling $5.2 million during fiscal 2013. Credit quality challenges have lessened in the past fiscal year and the real estate market in our primary market area has seen improvements. While the Company did not engage 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 contributed substantially to the increased levels of builder and developer delinquencies during recent periods. Although it appears the economic conditions have stabilized, a prolonged weak economy in our market area could result in increases in nonperforming assets, increases in the provision for loan losses and charge-offs in the future.

The Company has continued to focus on managing the residential construction and land acquisition and development portfolios. At March 31, 2014, the Company's residential construction and land acquisition and development loan portfolios were $3.9 million and $16.2 million, respectively as compared to $4.0 million and $23.4 million at March 31, 2013. The percentage of nonperforming loans in the residential construction and land acquisition and development portfolios was 0.00% and 4.92%, respectively as compared to 4.42% and 13.96%, respectively, a year ago. For the year ended March 31, 2014, the charge-off (recovery) ratio for the residential construction and land development portfolios was 0.18% and (3.84)%, respectively compared to (1.07)% and 2.37%, respectively, for the year ended March 31, 2013.

Nonperforming loans were $14.1 million or 2.64% of total loans at March 31, 2014 compared with $21.1 million or 3.94% of total loans at March 31, 2013. Nonperforming loans decreased as a result of the Company's aggressive efforts to work out problem loans, seek full repayment or pursue foreclosure proceedings.

The following table sets forth information regarding the Company's nonperforming loans (dollars in thousands).

	March 31, 2014		March 31, 2013	
	Number of Loans	Balance	Number of Loans	Balance
Commercial business	4	$ 452	9	$ 1,349
Commercial real estate	8	8,067	6	10,315
Land	1	800	5	3,267
Multi-family	1	2,014	1	2,968
Real estate construction	-	-	1	175
Consumer	9	2,729	15	3,059
Total	23	$ 14,062	37	$ 21,133

All of these loans are to borrowers with properties located in Oregon and Washington. At March 31, 2014, 96.19% of the Company's nonperforming loans, totaling $13.5 million, were measured for impairment. These loans have been charged down to their estimated fair market value less selling costs or carry a specific reserve to reduce the net carrying value. The reserve associated with these impaired loans totaled $137,000 at March 31, 2014. At March 31, 2014, the largest single nonperforming loan was a commercial real estate loan totaling $4.2 million. Charge-offs for this property totaled $98,000 for fiscal year 2014. This loan was measured for impairment and determined that a

specific reserve was not required since the loan has been charged down to its estimated market value less selling costs.

The balance of nonperforming assets included $7.7 million in real estate owned (“REO”) at March 31, 2014. The REO was comprised of single-family homes totaling $876,000, residential building lots totaling $1.5 million, commercial real estate property totaling $1.1 million and land development property totaling $4.2 million. All of the REO properties are located in Oregon and Washington. As a result of the Company’s decision to aggressively price its REO properties for quicker liquidation, the Company had $2.1 million in write-downs on existing REO properties during fiscal year 2014. Total REO sales were $12.4 million during fiscal year 2014. Maintenance and operating expenses for these properties totaled $709,000 during fiscal year 2014. 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. Further declines in market values in our area could lead to additional valuation adjustments, which would have an adverse effect on our results of operations.

The following table sets forth information regarding the Company's nonperforming assets.

	At March 31,				
	2014	2013	2012	2011	2010
			(In thousands)		
Loans accounted for on a non-accrual basis:					
Commercial business	$ 452	$ 1,349	$ 3,930	$ 2,871	$ 6,430
Other real estate mortgage	10,881	16,550	28,562	4,289	15,079
Real estate construction	-	175	7,756	4,206	11,826
Consumer	2,729	3,059	3,915	957	2,676
Total	14,062	21,133	44,163	12,323	36,011
Accruing loans which are contractually past due 90 days or more	-	-	-	-	-
Total nonperforming loans	14,062	21,133	44,163	12,323	36,011
REO	7,703	15,638	18,731	27,590	13,325
Total nonperforming assets	$ 21,765	$ 36,771	$ 62,894	$ 39,913	$ 49,336
Foregone interest on non-accrual loans	$ 949	$ 1,420	$ 2,313	$ 1,950	$ 2,753

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

	Northwest Oregon	Other Oregon	Southwest Washington	Other Washington	Total
March 31, 2014			(In thousands)		
Commercial business	$-	$-	$452	$-	$452
Commercial real estate	2,194	-	5,873	-	8,067
Multi-family	2,014	-	-	-	2,014
Land	-	800	-	-	800
Consumer	395	-	2,065	269	2,729
Total nonperforming loans	4,603	800	8,390	269	14,062
REO	374	542	5,966	821	7,703
Total nonperforming assets	$4,977	$1,342	$14,356	$1,090	$21,765
March 31, 2013					
Commercial business	$94	$169	$1,086	$-	$1,349
Commercial real estate	2,638	-	7,379	298	10,315
Multi-family	-	2,968	-	-	2,968
Land	-	800	2,467	-	3,267
One-to-four family construction	-	175	-	-	175
Consumer	349	401	1,703	606	3,059
Total nonperforming loans	3,081	4,513	12,635	904	21,133
REO	1,637	5,272	6,548	2,181	15,638
Total nonperforming assets	$4,718	$9,785	$19,183	$3,085	$36,771

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.

The following table sets forth information regarding the Company's other loans of concern (dollars in thousands).

	March 31, 2014		March 31, 2013	
	Number of Loans	Balance	Number of Loans	Balance
Commercial business	15	$ 7,967	12	$ 2,467
Commercial real estate	11	11,771	22	27,328
Land	-	-	3	1,038
Multi-family	1	14	2	879
Total	27	$ 19,752	39	$ 31,712

At March 31, 2014, loans delinquent 30 to 89 days were 0.42% of total loans compared to 1.74% at March 31, 2013. At March 31, 2014, the 30 to 89 day delinquency rate in our commercial business loan portfolio was 0.17%. The 30 to 89 day delinquency rate in our commercial real estate ("CRE") portfolio was 0.07%. CRE loans represent the largest portion of our loan portfolio at 53.89% of total loans and the commercial business loans represent 13.43% of total loans.

Troubled debt restructurings ("TDRs") are loans where the Company, for economic or legal reasons related to the borrower's financial condition, has granted a concession to the borrower that it would otherwise not consider. A TDR typically involves a modification of terms such as a reduction of the stated interest rate or face amount of the loan, a reduction of accrued interest, or an extension of the maturity date(s) at a stated interest rate lower than the current market rate for a new loan with similar risk.

TDRs are considered impaired loans and as such, when a loan is deemed to be impaired, the amount of the impairment is measured using discounted cash flows using the original note rate, except when the loan is collateral dependent. In these cases, the estimated fair value of the collateral and when applicable, less selling costs, are used. Impairment is recognized as a specific component within the allowance for loan losses if the value of the impaired loan is less than the recorded investment in the loan. When the amount of the impairment represents a confirmed loss, it is charged off against the allowance for loan losses. At March 31, 2014, the Company had TDRs totaling $22.8 million of which $12.4 million were on accrual status. However, all of the Company's TDRs are paying as agreed except for one of the Company's TDRs that totaled $270,000 at March 31, 2014, that was restructured during fiscal year 2012 and defaulted subsequent to modification. The related amount of interest income recognized on these TDRs was $553,000 for the year ended March 31, 2014.

The Company has determined that, in certain circumstances, it is appropriate to split a loan into multiple notes. This typically includes a nonperforming charged-off loan that is not supported by the cash flow of the relationship and a performing loan that is supported by the cash flow. These may also be split into multiple notes to align portions of the loan balance with the various sources of repayment when more than one exists. Generally the new loans are restructured based on customary underwriting standards. In situations where they were not, the policy exception qualifies as a concession, and the borrower is experiencing financial difficulties, the loans are accounted for as TDRs.

The accrual status of a loan may change after it has been classified as a TDR. The Company's general policy related to TDRs is to perform a credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. This evaluation includes consideration of the borrower's sustained historical repayment performance for a reasonable period of time in order for the restructured loan to be returned to an accrual status. A sustained period of repayment performance generally would be a minimum of six months, and may include repayments made prior to the restructuring date. If repayment of principal and interest appears doubtful, it is placed on non-accrual status.

In accordance with the Company's policy guidelines, unsecured loans are generally charged-off when no payments have been received for three consecutive months unless an alternative action plan is in effect. Consumer installment loans delinquent six months or more that have not received at least 75% of their required monthly payment in the last 90 days are charged-off. In addition, loans discharged in bankruptcy proceedings are charged-off. Loans under bankruptcy protection with no payments received for four consecutive months will be charged-off. The outstanding balance of a secured loan that is in excess of the net realizable value is generally charged-off if no payments are received for four to five consecutive months. However, charge-offs are postponed if alternative proposals to restructure, obtain additional guarantors, obtain additional assets as collateral or a potential sale would result in full repayment of the outstanding loan balance. Once any of these or other potential sources of repayment are exhausted the impaired portion of the loan is charged-off, unless an updated valuation of the collateral reveals no impairment. Regardless of whether a loan is unsecured or collateralized, once an amount is determined to be a confirmed loan loss it is promptly charged off.

Asset Classification. The OCC 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, OCC 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 (collectively "classified loans"). 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.

When the Company classifies problem assets as either substandard or doubtful, we may establish a specific allowance in an amount we deem prudent to address the risk specifically or we may allow the loss to be addressed in the general allowance. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been specifically allocated to particular problem assets. When a problem asset is classified by us as a loss, we are required to charge off the asset in the period in which it is deemed uncollectible.

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,	
	2014	2013
	(In thousands)	
Classified loans	$ 33,814	$ 52,845
General loss allowances	12,272	14,924
Specific loss allowances	279	719
Net charge-offs (recoveries)	(608)	5,178

All of the loans on non-accrual status as of March 31, 2014 were categorized as classified loans. Classified loans at March 31, 2014 were comprised of 19 commercial business loans totaling $8.4 million (the largest of these loans totaling $3.5 million), 19 commercial real estate loans totaling $19.8 million (the largest of which was $4.9 million), two multi-family loans totaling $2.0 million, one land development loan totaling $800,000 and nine one-to-four family real estate loans totaling $2.7 million (the largest of which was $1.1 million).

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 loan 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, 2014, the Company had an allowance for loan losses of $12.6 million, or 2.35% of total loans, compared to $15.6 million, or 2.92% at March 31, 2013. The decrease in the balance of the allowance for loan losses at March 31, 2014 reflects the continuing trend of lower levels of delinquent and classified loans, decreased charge-offs and increased recoveries, as well as stabilizing real estate values compared to the prior fiscal year, which resulted in the Company recording a recapture of loan losses of $3.7 million for the year ended March 31, 2014. Nonperforming loans decreased $7.1 million and 30-89 day delinquent loans also decreased $7.1 million during the year ended March 31, 2014. Classified loans were $33.8 million at March 31, 2014 compared to $52.8 million at March 31, 2013. The decrease in nonperforming and classified assets can be attributed to the Company’s efforts to reduce its level of nonperforming and classified assets through write-downs, collections and modifications.

The coverage ratio of allowance for loan losses to nonperforming loans was 89.25% at March 31, 2014 compared to 74.02% at March 31, 2013. This coverage ratio increased from March 31, 2013 primarily as a result of the decrease in nonperforming loans. At March 31, 2014, 18 of the Company’s nonperforming loans, totaling $13.5 million or 96.19%

of total nonperforming loans, were measured for impairment, with all of these loans being considered collateral dependent. The additional reserves associated with these impaired loans totaled $137,000 at March 31, 2014. The Company's general valuation allowance to non-impaired loans was 2.42% and 2.96% at March 31, 2014 and 2013, respectively.

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 affect 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,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Balance at beginning of year	$15,643	$19,921	$14,968	$21,642	$16,974
Provision for (recapture of) loan losses	(3,700)	900	29,350	5,075	15,900
Recoveries:					
Commercial and construction					
Commercial business	526	118	29	7	5
Other real estate mortgage	873	1,263	103	31	1
Real estate construction	4	228	3	7	76
Total commercial and construction	1,403	1,609	135	45	82
Consumer					
Real estate one-to-four family	304	138	12	11	7
Other installment	7	1	3	2	-
Total consumer	311	139	15	13	7
Total recoveries	1,714	1,748	150	58	89
Charge-offs:					
Commercial and construction					
Commercial business	340	1,606	2,801	2,371	2,466
Other real estate mortgage	406	3,869	16,895	4,404	3,836
Real estate construction	11	141	2,101	4,329	3,737
Total commercial and construction	757	5,616	21,797	11,104	10,039
Consumer					
Real estate one-to-four family	346	1,238	2,694	682	1,232
Other installment	3	72	56	21	50
Total consumer	349	1,310	2,750	703	1,282
Total charge-offs	1,106	6,926	24,547	11,807	11,321
Net charge-offs (recoveries)	(608)	5,178	24,397	11,749	11,232
Balance at end of year	$12,551	$15,643	$19,921	$14,968	$21,642
Ratio of allowance to total loans outstanding at end of year	2.35%	2.92%	2.91%	2.18%	2.95%
Ratio of net charge-offs (recoveries) to average net loans outstanding during year	(0.12)	0.86	3.51	1.67	1.48
Ratio of allowance to total nonperforming loans	89.25	74.02	45.11	121.46	60.10

The Company’s allowance consists of specific, general and unallocated components. The Company’s specific allowance decreased from prior year due to a decrease in the balance of impaired loans during the year. The general component also decreased from prior year due to a decrease in the balance of classified and nonperforming loans and a decrease in charge-offs during the year. The unallocated component has remained elevated compared to historical levels as a result of the continued economic uncertainty.

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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.

	At March 31,									
	2014		2013		2012		2011		2010	
	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 Catego as a Perce of To Loan
	(Dollars in thousands)									
Commercial and construction:										
Commercial business	$ 2,409	13.43%	$ 2,128	13.42%	$ 2,688	12.74%	$ 1,822	12.44%	$ 3,181	14
Other real estate mortgage	5,812	60.90	8,539	66.30	11,626	63.49	8,919	67.19	10,028	62
Real estate construction	387	3.65	221	1.81	412	3.76	820	3.98	5,137	10
Consumer:										
Real estate one-to-four family	2,190	17.43	2,868	18.12	3,220	19.71	1,294	16.06	1,522	12
Other installment	463	4.59	81	0.35	54	0.30	45	0.33	52	0
Unallocated	1,290	-	1,806	-	1,921	-	2,068	-	1,722	
Total allowance for loan loss	$ 12,551	100.00 %	$ 15,643	100.00 %	$ 19,921	100.00 %	$ 14,968	100.00 %	$ 21,642	100

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 OCC 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, 2014, 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, 2014, the Company’s investment portfolio totaled $102.1 million, primarily consisting of $21.5 million in U.S. agency securities available-for-sale, $78.6 million in mortgage-backed securities available-for-sale, and $1.9 million in trust preferred securities available-for-sale. This compares with a total investment portfolio of $6.8 million at March 31, 2013, primarily consisting of $5.0 million in U.S. agency securities available-for-sale, $431,000 in mortgage-backed securities available-for-sale, and $1.2 million in trust preferred securities available-for-sale. The increase was due to a decision by the Company to invest additional excess cash into higher yielding investment securities and mortgage-backed securities. The Company primarily purchases agency securities with maturities of five years or less and purchases a combination of mortgage-backed securities backed by government agencies (FHLMC, Fannie Mae (“FNMA”), U.S. Small Business Administration (“SBA”) or Ginnie Mae (“GNMA”)). At March 31, 2014, the Company owned no privately issued mortgage-backed securities. Our real estate mortgage investment conduits (“REMICS”) consist of FHLMC and FNMA securities and our CRE mortgage-backed securities consist of FNMA 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.

	At March 31,					
	2014		2013		2012	
	Carrying Value	Percent of Portfolio	Carrying Value	Percent of Portfolio	Carrying Value	Percent of Portfolio
	(Dollars in thousands)					
Held to maturity (at amortized cost):						
FHLMC mortgage-backed securities	$ 26	0.03%	$ 31	0.46%	$ 69	0.87%
FNMA mortgage-backed securities	75	0.07	94	1.39	102	1.28
Municipal securities	-	-	-	-	493	6.20
	101	0.10	125	1.85	664	8.35
Available for sale (at fair value):						
Agency securities	21,491	21.06	4,978	73.51	4,999	62.87
REMICs	7,150	7.00	237	3.50	329	4.14

FHLMC mortgage-backed securities		25,386	24.87		191	2.82		636	8.00
FNMA mortgage-backed securities		38,950	38.16		3	0.04		9	0.11
SBA mortgage-backed securities		3,932	3.85		-	-		-	-
GNMA mortgage-backed securities		1,077	1.06		-	-		-	-
CRE mortgage-backed securities		2,080	2.04		-	-		-	-
Municipal securities		-	-		-	-		149	1.87
Trust preferred securities		1,903	1.86		1,238	18.28		1,166	14.66
		101,969	99.90		6,647	98.15		7,288	91.65
Total investment securities	$	102,070	100.00%	$	6,772	100.00%	$	7,952	100.00%

The following table sets forth the maturities and weighted average yields in the securities portfolio at March 31, 2014.

	Less Than One Year		One to Five Years		More Than Five to Ten Years		More Than Ten Years	
	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)
	(Dollars in thousands)							
Agency securities	$ -	-%	$ 14,099	1.15%	$ 7,392	1.52%	$ -	-%
REMICs	-	-	27	5.26	137	4.39	6,986	2.30
FHLMC mortgage-backed securities	4	4.03	-	-	1,567	1.33	23,841	1.99
FNMA mortgage-backed securities	1	7.06	-	-	9,522	1.86	29,502	2.04
SBA mortgage-backed securities	-	-	-	-	-	-	3,932	1.18
GNMA mortgage-backed securities	-	-	-	-	-	-	1,077	1.97
CRE mortgage-backed securities	-	-	-	-	-	-	2,080	3.40
Trust preferred securities	-	-	-	-	-	-	1,903	3.73
Total	$ 5	4.64%	$ 14,126	1.16%	$ 18,618	1.70%	$ 69,321	1.89%

(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, comprised of agency securities and trust preferred securities, were $23.4 million at March 31, 2014 compared to $6.2 million at March 31, 2013. 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. A $1.9 million investment security that the Company currently holds is a single collateralized debt obligation ("CDO") secured by trust preferred securities issued by other bank holding companies. There was no impairment charge of this security for the years ended March 31, 2014, 2013 or 2012. Management believes that it is probable that principal payments will exceed the Company's recorded investment in this security, 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, 2014, the market for the Company's CDO 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

increased 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 the Company's 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. 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 condition, historical repayment information, as well as the Company's future expectations of the capital markets. Using this information, the Company estimated the fair value of the security at March 31, 2014 to be $1.9 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. The Company's estimate of fair value fell within the range of valuations provided, however, the magnitude in the range of fair value estimates further supported the difficulty in estimating the fair value for these types of securities in the current environment. Additionally, the Company believes that some of the assumptions used by the independent parties were overly aggressive and unrealistic. Therefore, the Company believes the use of its internally developed valuation model at March 31, 2014 is reasonable.

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, 2014 and 2013," "Fair Value of Level 3 Assets," and Note 17 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. The Company has focused on building customer relationships deposits which includes both business and consumer depositors. 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 following table sets forth the average balances of deposit accounts offered by the Company at the dates indicated.

	Year Ended March 31,					
	2014		2013		2012	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Non-interest-bearing demand	$ 120,290	0.00%	$ 127,048	0.00%	$ 110,959	0.00%
Interest checking	93,395	0.11	86,091	0.16	96,764	0.29
Regular savings accounts	59,844	0.15	49,394	0.19	40,345	0.31
Money market accounts	224,689	0.21	228,269	0.26	234,325	0.45
Certificates of deposit	174,522	0.75	206,565	0.89	248,696	1.17
Total	$ 672,740	0.29%	$ 697,367	0.38%	$ 731,089	0.60%

Deposit accounts totaled $690.1 million at March 31, 2014 compared to $663.8 million at March 31, 2013. The Company did not have any wholesale-brokered deposits at March 31, 2014 and 2013. The Company continues to focus on core deposits and growth around customer relationships as opposed to obtaining deposits through the wholesale markets. The Company has continued to experience increased competition for customer deposits within its market area. Customer branch deposit balances increased $33.4 million since March 31, 2013. The Company had $38.3 million, or 5.6% of total deposits, in Certificate of Deposit Account Registry Service (“CDARS”) and Insured Cash Sweep (“ICS”) deposits, which were gathered from customers within the Company’s primary market-area. CDARS and ICS deposits allow customers access to FDIC insurance on deposits exceeding the $250,000 FDIC insurance limit.

At March 31, 2014 and 2013, deposits from RAMCorp totaled $4.2 million and $4.9 million, respectively. These deposits were included in interest bearing and non-interest bearing accounts and represent assets under management by RAMCorp. At March 31, 2014, and 2013, the Company also had $11.7 million and $9.9 million, respectively in deposits from public entities located in the States of Washington and Oregon, all of which were fully covered by FDIC insurance or secured by pledged collateral.

The Company is enrolled in an internet deposit listing service. Under this listing service, the Company may post certificates of deposit rates on an internet site where institutional investors have the ability to deposit funds with the Company. At March 31, 2014 and 2013, the Company had $249,000 and $5.9 million, respectively, in deposits through this listing service. The decrease was due to maturities that occurred in fiscal year 2014 that the Company elected not to renew which were redeemed by the depositing institution. The Company plans to discontinue the utilization of internet based deposits during fiscal year 2015; however, the Company will continue to have accessibility to these funds in the future. Furthermore, the Company may utilize the internet deposit listing service to purchase certificates of deposit at other financial institutions.

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, 2014.

Maturity Period	Amount	Weighted Average Rate
	(Dollars in thousands)	
Three months or less	$ 20,669	