

RIVERVIEW BANCORP INC
Form 10-Q
February 13, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2013

OR

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

For the transition period from _____ to _____

Commission File Number: 0-22957

RIVERVIEW BANCORP, INC.

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of incorporation or
organization)

91-1838969
(I.R.S. Employer I.D. Number)

900 Washington St., Ste. 900, Vancouver,
Washington
(Address of principal executive offices)

98660
(Zip Code)

Registrant's telephone number, including area
code:

(360) 693-6650

Indicate by check mark whether the registrant (1) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

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]

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: Common Stock, \$.01 par value per share, 22,471,890 shares outstanding as of February 13, 2014.

Form 10-Q

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
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Certifications

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Forward Looking Statements

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

“Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995: When used in this Form 10-Q the words “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “plans,” “targets,” “potentially,” “probably,” “outlook,” or similar expressions or future or conditional verbs such as “may,” “will,” “should,” “would,” and “could,” or similar 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 2014 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. Financial Information

Item 1. Financial Statements (Unaudited)

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2013 AND MARCH 31, 2013

(In thousands, except share and per share data) (Unaudited)	December 31, 2013	March 31, 2013
ASSETS		
Cash (including interest-earning accounts of \$110,104 and \$100,093)	\$ 123,140	\$ 115,415
Certificates of deposit held for investment	37,174	44,635
Loans held for sale	148	831
Investment securities available for sale, at fair value (amortized cost of \$20,366 and \$7,766)	19,794	6,216
Mortgage-backed securities held to maturity, at amortized cost (fair value of \$107 and \$129)	104	125
Mortgage-backed securities available for sale, at fair value (amortized cost of \$34,979 and \$416)	34,529	431
Loans receivable (net of allowance for loan losses of \$14,048 and \$15,643)	505,632	520,369
Real estate and other personal property owned	11,951	15,638
Prepaid expenses and other assets	3,268	3,063
Accrued interest receivable	1,670	1,747
Federal Home Loan Bank stock, at cost	6,958	7,154
Premises and equipment, net	16,685	17,693
Deferred income taxes, net	348	522
Mortgage servicing rights, net	386	388
Goodwill	25,572	25,572
Core deposit intangible, net	33	66
Bank owned life insurance	17,557	17,138
TOTAL ASSETS	\$ 804,949	\$ 777,003

LIABILITIES AND EQUITY**LIABILITIES:**

Deposit accounts	\$ 689,271	\$ 663,806
Accrued expenses and other liabilities	8,707	8,006
Advanced payments by borrowers for taxes and insurance	193	1,025
Junior subordinated debentures	22,681	22,681
Capital lease obligations	2,381	2,440
Total liabilities	723,233	697,958

COMMITMENTS AND CONTINGENCIES (See Note 14)**EQUITY:**

Shareholders' equity

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Serial preferred stock, \$.01 par value; 250,000 authorized, issued and outstanding: none		
Common stock, \$.01 par value; 50,000,000 authorized		
December 31, 2013 – 22,471,890 issued and outstanding	225	225
March 31, 2013 – 22,471,890 issued and outstanding		
Additional paid-in capital	65,176	65,551
Retained earnings	16,951	14,169
Unearned shares issued to employee stock ownership trust	(413)	(490)
Accumulated other comprehensive loss	(675)	(1,013)
Total shareholders' equity	81,264	78,442
Noncontrolling interest	452	603
Total equity	81,716	79,045
TOTAL LIABILITIES AND EQUITY	\$ 804,949	\$ 777,003

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED
DECEMBER 31, 2013 AND 2012

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
INTEREST INCOME:				
Interest and fees on loans receivable	\$6,319	\$7,838	\$19,389	\$25,351
Interest on investment securities – taxable	75	131	191	222
Interest on investment securities – nontaxable	-	1	-	16
Interest on mortgage-backed securities	88	6	156	21
Other interest and dividends	191	160	532	417
Total interest and dividend income	6,673	8,136	20,268	26,027
INTEREST EXPENSE:				
Interest on deposits	496	595	1,537	2,117
Interest on borrowings	149	157	449	668
Total interest expense	645	752	1,986	2,785
Net interest income	6,028	7,384	18,282	23,242
Less provision for (recapture of) loan losses	-	-	(2,500)	4,500
Net interest income after provision for (recapture of) loan losses	6,028	7,384	20,782	18,742
NON-INTEREST INCOME:				
Fees and service charges	1,177	1,224	3,301	3,612
Asset management fees	605	517	1,936	1,625
Net gain on sale of loans held for sale	176	262	609	1,141
Bank owned life insurance	136	146	419	443
Other	290	(62)	252	20
Total non-interest income	2,384	2,087	6,517	6,841
NON-INTEREST EXPENSE:				
Salaries and employee benefits	3,959	3,872	11,696	11,274
Occupancy and depreciation	1,187	1,241	3,621	3,711
Data processing	523	435	1,641	1,041
Amortization of core deposit intangible	7	17	33	54
Advertising and marketing expense	170	193	578	681
FDIC insurance premium	400	433	1,228	1,114
State and local taxes	106	132	340	417
Telecommunications	78	73	227	310
Professional fees	342	447	995	1,149
Real estate owned expenses	298	1,069	2,402	2,899
Other	541	522	1,740	1,872
Total non-interest expense	7,611	8,434	24,501	24,522
INCOME BEFORE INCOME TAXES	801	1,037	2,798	1,061
PROVISION FOR INCOME TAXES	-	6	16	23

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NET INCOME	\$801	\$1,031	\$2,782	\$1,038
Earnings per common share:				
Basic	\$0.04	\$0.05	\$0.12	\$0.05
Diluted	0.04	0.05	0.12	0.05
Weighted average number of shares outstanding:				
Basic	22,370,277	22,345,644	22,364,142	22,339,509
Diluted	22,371,914	22,345,644	22,365,224	22,309,509

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2013 AND 2012

(Dollars in thousands) (Unaudited)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
Net income	\$ 801	\$ 1,031	\$ 2,782	\$ 1,038
Other comprehensive income (loss) (1)				
Unrealized holding gain (loss) on securities, net	(226)	262	512	224
Income tax benefit (expense) related to securities unrealized holding gain (loss)	77	(89)	(174)	(76)
Noncontrolling interest	16	13	62	44
Total comprehensive income	\$ 668	\$ 1,217	\$ 3,182	\$ 1,230

(1) There were no reclassifications out of other comprehensive income (loss) for the three and nine months ended December 31, 2013 and 2012.

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE NINE MONTHS ENDED DECEMBER 31, 2013 AND 2012

(In thousands, except share data) (Unaudited)	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to Employee Stock Ownership Trust	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance April 1, 2012	22,471,890	\$ 225	\$ 65,610	\$ 11,536	\$ (593)	\$ (1,171)	544	\$ 76,151
Net income	-	-	-	1,038	-	-	-	1,038
Stock based compensation expense	-	-	1	-	-	-	-	1
Earned ESOP shares	-	-	(48)	-	77	-	-	29
Unrealized holding gain on securities available for sale	-	-	-	-	-	148	-	148
Noncontrolling interest	-	-	-	-	-	-	44	44
Balance December 31, 2012	22,471,890	\$ 225	\$ 65,563	\$ 12,574	\$ (516)	\$ (1,023)	588	\$ 77,411
Balance April 1, 2013	22,471,890	\$ 225	\$ 65,551	\$ 14,169	\$ (490)	\$ (1,013)	603	\$ 79,045
Net income	-	-	-	2,782	-	-	-	2,782
Purchase of subsidiary shares from noncontrolling interest	-	-	(399)	-	-	-	(213)	(612)
Stock based compensation expense	-	-	53	-	-	-	-	53
Earned ESOP shares	-	-	(29)	-	77	-	-	48
Unrealized holding gain on securities available for sale	-	-	-	-	-	338	-	338
Noncontrolling interest	-	-	-	-	-	-	62	62
Balance December 31, 2013	22,471,890	\$ 225	\$ 65,176	\$ 16,951	\$ (413)	\$ (675)	452	\$ 81,716

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2013
AND 2012

(In thousands) (Unaudited)	Nine Months Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,782	\$ 1,038
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,330	1,411
Provision for (recapture of) loan losses	(2,500)	4,500
Noncash expense related to ESOP	48	29
Decrease in deferred loan origination fees, net of amortization	(21)	(294)
Origination of loans held for sale	(21,474)	(21,138)
Proceeds from sales of loans held for sale	22,615	19,588
Stock based compensation expense	53	1
Writedown of real estate owned, net	1,607	2,316
Net gain on loans held for sale, sale of real estate owned, mortgage-backed securities, investment securities and premises and equipment	(470)	(864)
Income from bank owned life insurance	(419)	(443)
Changes in assets and liabilities:		
Prepaid expenses and other assets	322	2,692
Accrued interest receivable	77	340
Accrued expenses and other liabilities	779	(533)
Net cash provided by operating activities	4,729	8,643
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan repayments, net	19,363	80,114
Purchase of loans receivable	(7,646)	-
Proceeds from sale of loans	-	31,394
Proceeds from call, maturity, or sale of investment securities available for sale	3,000	5,000
Principal repayments on investment securities available for sale	847	350
Principal repayments on investment securities held to maturity	-	493
Principal repayments on mortgage-backed securities available for sale	1,121	411
Principal repayments on mortgage-backed securities held to maturity	20	42
Purchase of investment securities available for sale	(16,448)	(5,000)
Purchase of mortgage-backed securities available for sale	(35,775)	-
Redemption (purchase) of certificates of deposit held for investment	7,461	(2,664)
Proceeds from redemption of Federal Home Loan Bank stock	196	131
Purchase of premises and equipment and capitalized software	(738)	(1,720)
Capitalized improvements related to real estate owned	-	(72)
	7,633	5,561

Proceeds from sale of real estate owned and premises and equipment		
Net cash provided by (used in) investing activities	(20,966)	114,040
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposit accounts	25,465	(61,661)
Purchase of subsidiary shares from noncontrolling interest	(612)	-
Proceeds from borrowings	2,000	5,000
Repayment of borrowings	(2,000)	(5,000)
Principal payments under capital lease obligation	(59)	(55)
Net decrease in advance payments by borrowers	(832)	(280)
Net cash provided by (used in) financing activities	23,962	(61,996)
NET INCREASE IN CASH	7,725	60,687
CASH, BEGINNING OF PERIOD	115,415	46,393
CASH, END OF PERIOD	\$ 123,140	\$ 107,080

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$ 1,535	\$ 2,147
Income taxes	29	4

NONCASH INVESTING AND FINANCING ACTIVITIES:

Transfer of loans to real estate owned	\$ 5,782	\$ 13,594
Transfer of real estate owned to loans	196	3,549
Fair value adjustment to securities available for sale	512	224
Income tax effect related to fair value adjustment	(174)	(76)

See notes to consolidated financial statements.

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

1. BASIS OF PRESENTATION

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

The unaudited consolidated financial statements should be read in conjunction with the audited financial statements included in the Riverview Bancorp, Inc. Annual Report on Form 10-K for the year ended March 31, 2013 (“2013 Form 10-K”). The results of operations for the nine months ended December 31, 2013 are not necessarily indicative of the results, which may be expected for the fiscal year ending March 31, 2014. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Riverview Bancorp, Inc.; 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”) (collectively referred to as the “Company”). All inter-company transactions and balances have been eliminated in consolidation.

3. STOCK PLANS AND STOCK-BASED COMPENSATION

In July 1998, shareholders of the Company approved the adoption of the 1998 Stock Option Plan (“1998 Plan”). The 1998 Plan was effective October 1998 and expired in October 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.

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 expired in July 2013. Accordingly, no further option awards may be granted under the 2003 Plan; however, any awards granted prior to its expiration remain outstanding subject to their terms.

The following table presents information on stock options outstanding for the periods shown.

Nine Months Ended December 31, 2013		Nine Months Ended December 31, 2012	
Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price

Balance, beginning of period	407,500	\$	9.05	440,500	\$	8.87
Grants	87,154		2.78	-		-
Forfeited	-		-	(3,000)		1.97
Expired	(20,000)		8.98	(20,000)		6.76
Balance, end of period	474,654	\$	7.91	417,500	\$	9.02

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

	Nine Months Ended December 31, 2013	Nine Months Ended December 31, 2012
Stock options fully vested and expected to vest:		
Number	469,896	417,100
Weighted average exercise price	\$ 7.96	\$ 9.02
Aggregate intrinsic value (1)	\$ 18,000	\$ -
Weighted average contractual term of options (years)	4.81	4.48
Stock options fully vested and currently exercisable:		
Number	385,300	413,700
Weighted average exercise price	\$ 9.10	\$ 9.08
Aggregate intrinsic value (1)	\$ 7,000	\$ -
Weighted average contractual term of options (years)	3.79	4.45

(1) The aggregate intrinsic value of a stock options 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 common stock.

Stock-based compensation expense related to stock options for the nine months ended December 31, 2013 and 2012 was \$53,000 and \$1,000, respectively. As of December 31, 2013, there was \$53,000 of unrecognized compensation expense related to unvested stock options, which will be recognized over the remaining vesting periods of the underlying stock options through December 2014.

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 expected life of options granted represents the period of time that they are expected to be outstanding. The expected life is determined based on historical experience with similar options, giving consideration to the contractual terms and vesting schedules. Expected volatility was estimated at the date of grant based on the historical volatility of the Company's common stock. Expected dividends are based on dividend trends and the market value of the Company's common stock at the time of grant. The risk-free interest rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of the grant. During the nine months ended December 31, 2013, the Company granted 87,154 stock options. The weighted average fair value of stock options granted during the nine months ended December 31, 2013 was \$1.18.

The Black-Scholes model uses the assumptions listed in the following table:

Risk		
Free	Expected	
Interest	Life	
Rate	(years)	Expected