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RIVERVIEW BANCORP INC  
Form 10-K  
June 13, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended March 31, 2007 OR

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

Commission File Number: 0-22957

RIVERVIEW BANCORP, INC.

-----  
(Exact name of registrant as specified in its charter)

Washington

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:

None  
-----

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

Common Stock, Par Value \$.01 per  
Share the Nasdaq Stock Market LLC

-----  
(Title of Class)

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  
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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  
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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  
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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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check One):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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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 Market System under the symbol "RVSB" on September 30, 2006 was approximately \$156,268,872 (11,575,472 shares at \$13.50 per share). It is assumed for purposes of this calculation that none of the registrant's officers, directors and 5% stockholders (including the Riverview Bancorp, Inc. Employee Stock Ownership Plan) are affiliates. As of June 8, 2007, there were issued and outstanding 11,627,980 shares of the registrant's common stock.

### DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of registrant's Definitive Proxy Statement for the 2007 Annual Meeting of Shareholders (Part III).

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## PART I

### Item 1. Business

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#### General

Riverview Bancorp, Inc. ("the Company"), a Washington corporation, is the savings and loan holding company of Riverview Community Bank (the "Bank"). On July 18, 2003, the Company completed the acquisition of Today's Bancorp, Inc. ("Today's Bancorp"). The acquisition of Today's Bancorp's \$122.3 million of assets and \$105.1 million of deposits were accounted for using the purchase method of accounting. On April 22, 2005, the Company completed the acquisition of American Pacific Bank ("APB"). The acquisition of APB's \$128.5 million of assets and \$80.0 million of deposits were accounted for using the purchase method of accounting. At March 31, 2007, the Company had total assets of \$820.3 million, total deposit accounts of \$665.4 million and shareholders' equity of \$100.2 million. The Company's executive offices are located at 900 Washington Street. All references to the Company herein include the Bank where applicable.

Substantially all of the Company's business is conducted through the Bank which is regulated by the Office of Thrift Supervision ("OTS"), its primary regulator, and by the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. The Bank's deposits are insured by the FDIC up to

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applicable legal limits under the Savings Association Insurance Fund ("SAIF"). The Bank has been a member of the Federal Home Loan Bank ("FHLB") of Seattle since 1937.

The Company is a progressive, community-oriented financial services company, which emphasizes local, personal service to residents of its primary market area. The Company considers Clark, Cowlitz, Klickitat and Skamania counties of Washington and Multnomah, Clackamas and Marion counties of Oregon as its primary market area. The Company is engaged primarily in the business of attracting deposits from the general public and using such funds in its primary market area to originate commercial real estate, one-to-four family residential real estate, construction, and commercial and consumer loans. Commercial and construction loans have grown from 72.42% of the loan portfolio at March 31, 2003 to 89.38% at March 31, 2007. The Company's strategic plan includes targeting the commercial banking customer base in its primary market area, specifically small and medium size businesses, professionals and wealth building individuals. In pursuit of these goals, the Company emphasizes controlled growth and the diversification of its loan portfolio to include a higher portion of commercial and commercial real estate loans. A related goal is to increase the proportion of personal and business checking account deposits used to fund these new loans. Significant portions of these new loan products carry adjustable rates, higher yields or shorter terms and higher credit risk than traditional fixed-rate mortgages. The strategic plan stresses increased emphasis on non-interest income, including increased fees for asset management and deposit service charges. The strategic plan is designed to enhance earnings, reduce interest rate risk and provide a more complete range of financial services to customers and the local communities the Company serves. The Company is well positioned to attract new customers and to increase its market share with 18 branches including ten in fast growing Clark county, three in the Portland metropolitan area and three lending centers.

In order to support its strategy of growth without compromising its local, personal service to its customers and a commitment to asset quality, the Company has made significant investments in experienced branch, lending, asset management and support personnel and has incurred significant costs in facility expansion. The Company's efficiency ratios reflect this investment and will likely remain relatively high by industry standards for the foreseeable future because of the emphasis on growth and local, personal service. Control of non-interest expenses remains a high priority for the Company's management.

The Company continuously reviews new products and services to give its customers more financial options. With an emphasis on growth of non-interest income and control of non-interest expense, all new technology and services are reviewed for business development and cost saving purposes. The in-house processing of checks and production of images has supported the Bank's increased service to customers and at the same time has increased efficiency. The Company continues to experience growth in customer use of its online banking services. Customers are able to

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conduct a full range of services on a real-time basis, including balance inquiries, transfers and electronic bill paying. This online service has also enhanced the delivery of cash management services to commercial customers. The internet banking branch web site is [www.riverviewbank.com](http://www.riverviewbank.com).

Special Note Regarding Forward-Looking Statements

Management's Discussion and Analysis and other portions of this Form 10-K

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contain certain "forward-looking statements" concerning the future operations of the Company. Management desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing the Company of the protections of such safe harbor with respect to all "forward-looking statements" contained in the Company's Annual Report. The Company has used "forward-looking statements" to describe future plans and strategies, including its expectations of the Company's future financial results. Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include interest rate trends, the general economic climate in the Company's market area and the country as a whole, the ability of the Company to control costs and expenses, deposit flows, demand for mortgages and other loans, real estate value and vacancy rates, the ability of the Company to efficiently incorporate acquisitions into its operations, competition, loan delinquency rates, and changes in federal and state regulation. These factors should be considered in evaluating the "forward-looking statements," and undue reliance should not be placed on such statements. The Company does not undertake to update any forward-looking statement that may be made on behalf of the Company.

### Market Area

The Company conducts operations from its home office in Vancouver and 18 branch offices in Camas, Washougal, Stevenson, White Salmon, Battle Ground, Goldendale, Vancouver (seven branch offices) and Longview, Washington and Portland, Wood Village and Aumsville, Oregon. The Company's market area for lending and deposit taking activities encompasses Clark, Cowlitz, Skamania and Klickitat counties in Washington, as well as Multnomah, Clackamas and Marion counties in Oregon, and throughout the Columbia River Gorge area. The Company operates a trust and financial services company, Riverview Asset Management Corp., located in downtown Vancouver, Washington. Riverview Mortgage, a mortgage broker division of the Company, originates mortgage loans for various mortgage companies predominantly in the Vancouver/Portland metropolitan areas, as well as for the Company. The Business and Professional Banking Division located at the downtown Vancouver headquarters and the Portland lending office offers commercial and business banking services.

Vancouver is located in Clark County, Washington, which is just north of Portland, Oregon. Many businesses are located in the Vancouver area because of the favorable tax structure and lower energy costs in Washington as compared to Oregon. Washington has no state income tax and Clark County operates a public electric utility that provides relatively lower cost electricity. Companies located in the Vancouver area included Sharp Microelectronics, Hewlett Packard, Georgia Pacific, Underwriters Laboratory and Wafer Tech, as well as several support industries. In addition to this industrial base, the Columbia River Gorge Scenic Area has been a source of tourism, which has helped to transform the area from its past dependence on the timber industry.

### Lending Activities

General. At March 31, 2007, the Company's total net loans receivable, including loans held for sale, amounted to \$683.0 million, or 83.3% of total assets at that date. The principal lending activity of the Company is the origination of mortgage loans through its mortgage banking activities, including loans collateralized by commercial properties, land for development, and residential construction 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.

In prior years Riverview reported and disclosed the composition of its loan

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portfolio based on collateral with a focus upon residential construction and permanent financing activities a view that was consistent with Riverview's background as a thrift organization. However, since 1998 and more pronounced in recent years, Riverview has strategically migrated its lending focus to one similar to a commercial bank. This intended strategy is evident not

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only in the changing mix of the loan portfolio that has occurred organically but also has been accomplished through the Company's recent acquisitions of community banks that emphasized commercial lending activities. To align with the strategic direction of the Company, and to better conform to established industry practices, we have modified certain loan disclosures to reflect the increasingly commercial nature of our loan portfolio, and to classify loan types based on loan purpose, rather than collateral. All impacted tables and loan disclosures in this Form 10-K reflect these new disclosure and the related reclassifications.

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

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|                                     | At March 31,           |         |           |         |           |         |           |         |
|-------------------------------------|------------------------|---------|-----------|---------|-----------|---------|-----------|---------|
|                                     | 2007                   |         | 2006      |         | 2005      |         | 2004      |         |
|                                     | Amount                 | Percent | Amount    | Percent | Amount    | Percent | Amount    | Percent |
|                                     | -----                  |         |           |         |           |         |           |         |
|                                     | (Dollars in thousands) |         |           |         |           |         |           |         |
| Commercial and construction:        |                        |         |           |         |           |         |           |         |
| Commercial                          | \$ 91,174              | 13.18%  | \$ 90,083 | 14.29%  | \$ 78,280 | 18.02%  | \$ 57,578 | 14.00%  |
| Other real estate mortgage          | 360,930                | 52.19   | 329,631   | 52.30   | 220,813   | 50.84   | 206,850   | 53.00   |
| Real estate construction            | 166,073                | 24.01   | 137,598   | 21.83   | 58,699    | 13.51   | 49,042    | 12.50   |
| Total commercial and construction   | 618,177                | 89.38   | 557,312   | 88.42   | 357,792   | 82.37   | 313,470   | 81.00   |
| Consumer:                           |                        |         |           |         |           |         |           |         |
| Real estate one-to-four family      | 69,808                 | 10.10   | 64,091    | 10.17   | 69,455    | 15.99   | 67,699    | 17.50   |
| Other installment                   | 3,619                  | 0.52    | 8,899     | 1.41    | 7,107     | 1.64    | 4,846     | 1.25    |
| Total consumer loans                | 73,427                 | 10.62   | 72,990    | 11.58   | 76,562    | 17.63   | 72,545    | 18.75   |
| Total loans and loans held for sale | 691,604                | 100.00% | 630,302   | 100.00% | 434,354   | 100.00% | 386,015   | 100.00% |
| Less:                               |                        |         |           |         |           |         |           |         |
| Allowance for loan losses           | 8,653                  |         | 7,221     |         | 4,395     |         | 4,481     |         |
| Total loans receivable, net (1)     | \$682,951              |         | \$623,081 |         | \$429,959 |         | \$381,534 |         |
|                                     | =====                  |         | =====     |         | =====     |         | =====     |         |

(1) Includes loans held for sale of none, \$65,000, \$510,000, \$407,000 and \$1.5 million at March 31, 2007, 2006, 2005, 2004 and 2003, respectively.

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

COMPOSITION OF COMMERCIAL AND CONSTRUCTION LOAN TYPES BASED ON LOAN PURPOSE

|   | Commercial<br>& Construction<br>Total | Commercial<br>Commercial | Other<br>Real Estate<br>Mortgage | Real<br>Estate<br>Construction |
|---|---------------------------------------|--------------------------|----------------------------------|--------------------------------|
| -----                                   |                                       |                          |                                  |                                |
| March 31, 2007                          | (Dollars in thousands)                |                          |                                  |                                |
| -----                                   |                                       |                          |                                  |                                |
| Commercial                              | \$91,174                              | \$91,174                 | \$ -                             | \$ -                           |
| Commercial construction                 | 56,226                                | -                        | -                                | 56,226                         |
| Office buildings                        | 62,310                                | -                        | 62,310                           | -                              |
| Warehouse/industrial                    | 40,238                                | -                        | 40,238                           | -                              |
| Retail/shopping centers/<br>strip malls | 70,219                                | -                        | 70,219                           | -                              |
| Assisted living facilities              | 11,381                                | -                        | 11,381                           | -                              |
| Single purpose facilities               | 41,501                                | -                        | 41,501                           | -                              |
| Land                                    | 103,240                               | -                        | 103,240                          | -                              |
| Multi-family                            | 32,041                                | -                        | 32,041                           | -                              |
| One-to-four family                      | 109,847                               | -                        | -                                | 109,847                        |
| -----                                   |                                       |                          |                                  |                                |
| Total                                   | \$618,177                             | \$91,174                 | \$360,930                        | \$166,073                      |
| =====                                   |                                       |                          |                                  |                                |
|   |                                       |                          |                                  |                                |
| March 31, 2006                          |                                       |                          |                                  |                                |
| -----                                   |                                       |                          |                                  |                                |
| Commercial                              | \$90,083                              | \$90,083                 | \$ -                             | \$ -                           |
| Commercial construction                 | 43,715                                | -                        | -                                | 43,715                         |
| Office buildings                        | 44,538                                | -                        | 44,538                           | -                              |
| Warehouse/industrial                    | 47,945                                | -                        | 47,945                           | -                              |
| Retail/shopping centers/<br>strip malls | 75,877                                | -                        | 75,877                           | -                              |
| Assisted living facilities              | 11,576                                | -                        | 11,576                           | -                              |
| Single purpose facilities               | 41,506                                | -                        | 41,506                           | -                              |
| Land                                    | 77,084                                | -                        | 77,084                           | -                              |
| Multi-family                            | 31,105                                | -                        | 31,105                           | -                              |
| One-to-four family                      | 93,883                                | -                        | -                                | 93,883                         |
| -----                                   |                                       |                          |                                  |                                |
| Total                                   | \$557,312                             | \$90,083                 | \$329,631                        | \$137,598                      |
| =====                                   |                                       |                          |                                  |                                |

Commercial Lending. Commercial loans are generally made to customers who are well known to the Company and are typically secured by all business assets or other property. The Company's commercial 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 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 greater risk than residential mortgage lending and involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered

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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. Repayment of commercial business loans is often dependent on cash flow of the borrower, which may be unpredictable, and collateral securing these loans may fluctuate in value. Commercial business loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, equipment or real estate. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from

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its customers. Other collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Other Real Estate Mortgage Lending. At March 31, 2007, the other real estate lending portfolio balance totaled \$360.9 million, or 52.19% of total loans. The Company originates other real estate loans including office buildings, warehouse/industrial, retail, assisted living facilities, land and multi-family primarily located in our market area.

The Company actively pursues other real estate loans. Typically, these loans have higher loan balances, are more difficult to evaluate and monitor, and involve a higher degree of risk than one-to-four family residential loans. Often payments on loans secured by commercial properties are dependent on the successful operation and management of the property securing the loan or business conducted on the property securing the loan; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. Because our loan portfolio contains a significant number of commercial and multifamily real estate loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in nonperforming loans. An increase in nonperforming loans could cause an increase in the provision for loan losses and an increase in loan charge-offs which could adversely impact our results of operations and financial condition. Compared to one-to-four family first mortgage loans, land loans may involve larger loan balances to single borrowers, and the payment experience may be dependent on the successful development of the land and the sale of the lots. These risks can be significantly impacted by supply and demand conditions. If the borrower is a corporation, personal guarantees are generally required and obtained from the corporate principals based upon a review of their personal financial statements and individual credit reports. A portion of the commercial real estate loan portfolio is relatively unseasoned and contains a higher risk of default and loss than one-to-four family residential loans.

Both fixed and adjustable-rate loans are offered on other real estate loans. Adjustable-rate other real estate loans are originated with rates that generally adjust after an initial period ranging from one to five years. Adjustable-rate other real estate loans are generally priced utilizing the Federal Home Loan Bank of Seattle's fixed advance rate for an equivalent period plus a margin ranging from 2.5% to 3.5%, with principal and interest payments fully amortizing over terms up to 25 years. These loans generally have a prepayment penalty. Both adjustable-rate mortgages and fixed-rate mortgages generally allow provisions for assumption of a loan by another borrower subject to lender approval and a 1% assumption fee.

The maximum loan-to-value ratio for other real estate loans is generally 75%

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for both purchases and refinances. Appraisals are required on all properties securing other real estate loans. Independent appraisers designated by us perform appraisals. Other real estate loan borrowers with outstanding balances in excess of \$500,000 are required to submit annual financial statements and tax returns. The subject property is inspected at least every two years if the loan balance exceeds \$500,000. The Company attempts to minimize this risk by limiting the maximum loan-to-value ratio on land loans to 65% of the estimated developed value of the secured property. Loans on raw land may run the risk of adverse zoning changes, environmental or other restrictions on future use.

Loans originated on a fixed-rate basis generally are originated at fixed terms up to five years, with amortization terms up to 25 years. Interest rates on fixed-rate loans are generally established utilizing the Federal Home Loan Bank of Seattle's fixed advance rate for an equivalent period plus a margin. Depending on the market conditions at the time the loan was originated, certain loan agreements may include prepayment penalties.

The average size loan in the other real estate loan portfolios was approximately \$694,000 as of March 31, 2007. The Company targets individual other real estate loans between \$500,000 and \$5.0 million; however, the loan policy allows origination of loans to one borrower up to 15% of the Bank's capital. The largest other real estate loan as of March 31, 2007 was an office building with an outstanding principal balance of \$8.8 million located in Vancouver, Washington. This loan is performing according to the loan payment terms, as were all other real estate loans as of March 31, 2007, except for two non-accrual loans with a balance of \$226,000.

Real Estate Construction. The real estate construction loan portfolio, not including loan commitments, totaled \$166.1 million at March 31, 2007. The Company actively originates three types of residential construction loans: (i) speculative construction loans, (ii) custom/presold construction loans and (iii) construction/permanent loans. Subject to market conditions, the

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Company intends to increase its residential construction lending activities. The Company also originates construction loans for the development of multi-family and commercial properties.

The composition of the Company's construction loan portfolio including loan commitments at March 31, 2007 and 2006 was as follows:

|                                      | At March 31, |         |            |         |
|--------------------------------------|--------------|---------|------------|---------|
|                                      | 2007         |         | 2006       |         |
|                                      | Amount (1)   | Percent | Amount (1) | Percent |
| (Dollars in thousands)               |              |         |            |         |
| Speculative construction             | \$119,944    | 50.59%  | \$111,699  | 53.06%  |
| Commercial/multi-family construction | 82,248       | 34.69   | 73,436     | 34.88   |
| Custom/presold construction          | 18,818       | 7.93    | 3,752      | 1.78    |
| Construction/permanent               | 16,096       | 6.79    | 21,631     | 10.28   |
|                                      | -----        |         | -----      |         |
| Total                                | \$237,106    | 100.00% | \$210,518  | 100.00% |
|                                      | =====        |         | =====      |         |

(1) Includes loans in process.

Speculative construction loans are made to home builders and are termed "speculative" because the home builder does not have, at the time of loan



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origination, a signed contract with a home buyer who has a commitment for permanent financing with either the Company or another lender for the finished home. The home buyer may be identified either during or after the construction period, with the risk that the builder will have to debt service the speculative construction loan and finance real estate taxes and other carrying costs of the completed home for a significant time after the completion of construction until the home buyer is identified. At March 31, 2007, the Company had 34 borrowers with aggregate outstanding speculative loan balances of more than \$1.0 million, which totaled \$73.5 million and were performing according to original terms.

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, 2007, the largest custom construction loan and presold construction loan had outstanding balances of \$315,000 and \$964,000, respectively, and were performing according to original terms.

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 ARM loan or use its mortgage brokerage capabilities to obtain permanent financing for the customer with another lender. At completion of construction, the Company-originated fixed rate permanent loan's interest rate is set at a market rate and for adjustable rate loans, the interest rates adjust on their first adjustment date. See " Mortgage Brokerage," " Loan Originations, Sales and Purchases" and " Mortgage Loan Servicing." At March 31, 2007, the largest outstanding construction/permanent loan had an outstanding balance of \$510,000 and was performing according to its original terms.

The Company also provides construction financing for non-residential properties such as multi-family and commercial properties. The Company has increased its commercial lending resources with the intent of increasing the amount of other real estate loan balances such as construction commercial and construction multi-family loans. The commercial construction loans outstanding at March 31, 2007 were \$56.2 million and the loan commitment amount was \$86.3 million. At March 31, 2007, the largest construction commercial loan had an outstanding balance of \$6.2 million and was performing according to its original repayment terms.

The loan-to-value ratio, maturity and other provisions of the loans generally have reflected the Bank's policy of making less than the maximum loan permissible under applicable regulations, in accordance with sound lending practices, market conditions and the Bank's underwriting standards. The Bank's current lending policy on residential real estate construction loans generally limits the maximum loan-to-value ratio to 80% of the appraised value of the property for loans to

individuals and 75% of the appraised market value of the project for loans to developers, provided that the loan does not exceed 85% of total costs to complete the project. The minimum cash equity required for an individual construction loan is 15%. The minimum cash equity required for a developer loan is 15% of total costs, with up to 50% of appreciated land equity being

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considered as cash equity provided certain conditions are met. In addition, for loans to tract developers, the loan to discounted cash flow or bulk sale value generally may not exceed 85%. Development plans are required from both individuals and developers prior to making the loan. The Bank's loan officers are required to personally visit the proposed site of the development and the sites of competing developments. The Bank requires that developers maintain adequate insurance coverage. While maturity dates for residential construction loans are largely a function of the estimated construction period of the project, loans to an individual generally do not exceed one year while loans to developers generally do not exceed 18 months. Substantially all of the Bank's residential construction loans have adjustable rates of interest based on the Wall Street Journal Prime Rate and, during the term of construction, the accumulated interest is added to the principal of the loan through an interest reserve.

Construction lending affords the Company the opportunity to achieve higher interest rates and fees with shorter terms to maturity than does 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. The nature of these loans is such that they are generally more difficult to evaluate and monitor. If the estimate of construction cost proves to be inaccurate, the Company may be required to advance funds beyond the amount originally committed to permit completion of the project. Projects may also be jeopardized by disagreements between borrowers and builders and by the failure of builders to pay subcontractors. The Company addresses these risks by adhering to strict underwriting policies, disbursement procedures and monitoring practices. In addition, because the Company's construction lending is in its primary market area, changes in the local economy and real estate market could adversely affect the Company's construction loan portfolio and the Company's ability to continue to originate a significant amount of construction loans. At March 31, 2007, the Company had no construction loans on non-accrual status.

Consumer Lending. Consumer loans totaled \$73.4 million at March 31, 2007, or 10.62% of total loans. Consumer lending is comprised of one-to-four family mortgage loans, home equity lines of credit, land loans for the future construction of one-to-four family homes, totaling \$69.8 million, and other secured and unsecured consumer loans, totaling \$3.6 million at March 31, 2007.

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% or (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, and the Company also offers balloon mortgage loans with terms of either five or seven years. The Company originates both fixed rate mortgages and adjustable rate mortgages ("ARMs") with repricing based on one-year constant maturity U.S. Treasury index or other index. The ability to generate volume in ARMs, however, is largely a function of consumer preference and the interest rate environment. At March 31, 2007, the Company had no one-to-four family residential real estate loans on non-accrual status.

In addition to originating one-to-four family loans for its portfolio, the Company is an active mortgage broker for several third party mortgage lenders. In recent periods, these mortgage brokerage activities have reduced the volume of fixed rate one-to-four family loans that are originated and sold by the Company. See " Loan Originations, Sales and Purchases" and " Mortgage Brokerage."

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The Company generally sells fixed-rate mortgage loans with maturities of 15 years or more and balloon mortgages to the Federal Home Loan Mortgage Corporation ("FHLMC"), servicing retained. See "-Loan Originations, Sales and Purchases" and "-Mortgage Loan Servicing."

The Company originates a variety of consumer loans, including home equity lines of credit, home equity term loans, home improvement loans, loans for debt consolidation and other purposes, automobile loans, boat loans and savings account loans.

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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, 2007, the Company had no consumer loans non-accrual status.

Loan Maturity. The following table sets forth certain information at March 31, 2007 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<br>1 Year<br>----- | 1-3<br>Years<br>----- | After<br>3-5<br>Years<br>----- | After<br>5-10<br>Years<br>----- | Beyond<br>10 Years<br>----- | Total<br>-----     |
|--|---------------------------|-----------------------|--------------------------------|---------------------------------|-----------------------------|--------------------|
| Commercial and construction (Dollars in thousands) |                           |                       |                                |                                 |                             |                    |
| Commercial   |                           |                       |                                |                                 |                             |                    |
| Adjustable rate                                    | \$53,823                  | \$ 7,975              | \$ 7,242                       | \$ 4,819                        | \$ 61                       | \$73,920           |
| Fixed rate   | 2,541                     | 6,053                 | 7,557                          | 958                             | 145                         | 17,254             |
| Other real estate mortgage                         |                           |                       |                                |                                 |                             |                    |
| Adjustable rate                                    | 73,680                    | 30,142                | 13,344                         | 162,215                         | 14,391                      | 293,772            |
| Fixed rate   | 10,919                    | 21,412                | 18,151                         | 15,770                          | 906                         | 67,158             |
| Real estate construction                           |                           |                       |                                |                                 |                             |                    |
| Adjustable rate                                    | 115,553                   | 16,831                | -                              | 9,521                           | 1,372                       | 143,277            |
| Fixed rate   | 16,316                    | 325                   | -                              | 5,803                           | 352                         | 22,796             |
| Total commercial & construction                    | -----<br>272,832          | -----<br>82,738       | -----<br>46,294                | -----<br>199,086                | -----<br>17,227             | -----<br>618,177   |
| Consumer   |                           |                       |                                |                                 |                             |                    |
| Real estate one-to-four family                     |                           |                       |                                |                                 |                             |                    |
| Adjustable rate                                    | 37                        | 1,095                 | 513                            | 513                             | 36,331                      | 38,489             |
| Fixed rate   | 3,432                     | 5,511                 | 9,975                          | 1,180                           | 11,221                      | 31,319             |
| Other installment                                  |                           |                       |                                |                                 |                             |                    |
| Adjustable rate                                    | 303                       | 48                    | -                              | 375                             | 72                          | 798                |
| Fixed rate   | 477                       | 724                   | 890                            | 463                             | 267                         | 2,821              |
| Total consumer                                     | -----<br>4,249            | -----<br>7,378        | -----<br>11,378                | -----<br>2,531                  | -----<br>47,891             | -----<br>73,427    |
| Total net loans                                    | -----<br>\$277,081        | -----<br>\$90,116     | -----<br>\$57,672              | -----<br>\$201,617              | -----<br>\$65,118           | -----<br>\$691,604 |

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The following table sets forth the dollar amount of all loans due one year after March 31, 2007, which have fixed interest rates or have floating or adjustable interest rates.

|                                | Fixed-<br>Rates<br>----- | Floating or<br>Adjustable Rates<br>----- |
|--------------------------------|--------------------------|--|
|                                | (In thousands)           |  |
| Commercial                     | \$ 14,713                | \$ 20,097                                |
| Other real estate mortgage     | 56,239                   | 220,092                                  |
| Real estate construction       | 6,480                    | 27,724                                   |
| Real estate one-to-four family | 27,887                   | 38,452                                   |
| Other installment              | 2,344                    | 495                                      |
|                                | -----                    | -----                                    |
| Total                          | \$107,663                | \$306,860                                |
|                                | =====                    | =====                                    |

Scheduled contractual principal repayments of loans do not reflect the actual life of such assets. The average life of a loan is substantially less than its contractual terms because of prepayments. In addition, due-on-sale clauses on loans generally give the Company the right to declare loans immediately due and payable in the event, among other things, that the borrower sells the real property. The average life of mortgage loans tends to increase, however, when current mortgage loan market rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when rates on existing mortgage loans are substantially higher than current mortgage loan market rates. Furthermore, management believes that a significant number of the Company's residential mortgage loans are outstanding for a period less than their contractual terms because of the transitory nature of many of the borrowers who reside in its primary market area.

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

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

The Company's general permissible lending limit for loans-to-one-borrower is equal to the greater of \$500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At March 31, 2007 the Company's lending limit under this restriction was \$12.7 million and, at that date, the Company's largest single loan to one borrower was \$11.4 million, which was performing according to its original terms.

Loan Commitments. The Company issues commitments to originate commercial

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loans, commercial real estate mortgage loans, commercial construction loans, residential mortgage loans and consumer 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 extend credit are conditional, and are honored for up to 45 days subject to the Company's usual terms and conditions. Collateral is not required to support commitments. At March 31, 2007, the Company had outstanding commitments to originate loans of \$14.9 million.

Loan Originations, Sales and Purchases. While the Company originates adjustable-rate and fixed-rate loans, its ability to generate each type of loan depends upon relative customer demand for loans in its primary market area. During the years ended March 31, 2007 and 2006, the Company's total loan originations, including mortgage loans originated for sale and participations purchased, were \$611.9 million and \$677.8 million, respectively, of which 80.26% and 82.84%, respectively, were subject to periodic interest rate adjustment and 19.74% and 17.16%, respectively, were fixed-rate loans.

The Company customarily sells the fixed-rate residential one-to-four family mortgage loans that it originates with maturities of 15 years or more to Federal Home Loan Mortgage Corporation ("FHLMC") as part of its asset liability

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strategy. Mortgage loans are sold to FHLMC on a non-recourse basis where-by foreclosure losses are generally the responsibility of FHLMC and not the Company. Servicing is retained on loans sold to FHLMC. The sale of these loans allows the Company to continue to make loans during periods when savings flow declines or funds are not otherwise available for lending purposes; however, the Company assumes an increased risk if these loans cannot be sold in a rising interest rate environment. Changes in the level of interest rates and the condition of the local and national economies affect the amount of loans originated by the Company and demanded by investors to whom the loans are sold. Generally, the Company's residential one-to-four family mortgage loan origination, and sale and mortgage brokerage activity (described below) and, therefore, its results of operations, may be adversely affected by an increasing interest rate environment to the extent such environment results in decreased loan demand by borrowers and/or investors. Accordingly, the volume of loan originations and the profitability related to the sale or brokerage of one-to-four family mortgage loans can vary significantly from period to period. During periods of reduced loan demand, the Company's profitability may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.

Interest rates on residential one-to-four family mortgage loan applications are typically locked with customers and FHLMC during the application stage for periods ranging from 30 to 90 days, the most typical period being 45 days. These loans are locked with FHLMC under a best-efforts delivery program. The Company makes every effort to deliver these loans before their rate locks expire. This arrangement requires the Company to deliver the loans to FHLMC within ten days of funding. Delays in funding the loans can require a lock extension. The cost of a lock extension at times is borne by the borrower and at times by the Company. These lock extension costs paid by the Company are not expected to have a material impact to operations. This activity is managed daily.

There can be no assurance that the Company will be successful in its efforts

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to reduce the risk of interest rate fluctuation between the time of mortgage loan origination and the time of the ultimate sale of the loan. To the extent that the Company does not adequately manage its interest rate risk, the Company may incur significant mark-to-market losses or losses relating to the sale of such loans, adversely affecting its financial condition and results of operations.

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The following table shows total loans originated, sold and repaid during the periods indicated.

|   | For the Years Ended March 31, |           |           |
|---|-------------------------------|-----------|-----------|
|   | 2007                          | 2006      | 2005      |
|   | -----                         | -----     | -----     |
|   | (In thousands)                |           |           |
| Total net loans receivable and loans held for sale at beginning of period | \$623,081                     | \$429,959 | \$381,534 |
|   | -----                         | -----     | -----     |
| Loans originated:   |                               |           |           |
| Other real estate mortgage  | 122,365                       | 191,601   | 98,590    |
| Real estate construction  | 190,594                       | 153,409   | 101,801   |
| Commercial  | 210,753                       | 258,056   | 163,884   |
| Consumer  | 54,817                        | 62,219    | 64,480    |
|   | -----                         | -----     | -----     |
| Total loans originated  | 578,529                       | 665,285   | 428,755   |
| Loans purchased:  |                               |           |           |
| Other real estate mortgage  | 5,915                         | 12,526    | 5,664     |
| Real estate construction  | 27,311                        | -         | -         |
| Commercial  | 145                           | -         | -         |
|   | -----                         | -----     | -----     |
| Total loans purchased   | 33,371                        | 12,526    | 5,664     |
| Loans sold:   |                               |           |           |
| Other real estate mortgage  | (11,941)                      | (4,931)   | -         |
| Real estate construction  | (5,940)                       | -         | -         |
| Consumer (one-to-four family)   | (17,031)                      | (23,402)  | (22,840)  |
|   | -----                         | -----     | -----     |
| Total loans sold  | (34,912)                      | (28,333)  | (22,840)  |
| Repayment of principal  | (516,347)                     | (573,707) | (363,607) |
| American Pacific Bank acquisition   | -                             | 120,077   | -         |
| Increase (decrease) in other items, net                                   | (771)                         | (2,726)   | 453       |
|   | -----                         | -----     | -----     |
| Net increase in loans   | 59,870                        | 193,122   | 48,425    |
|   | -----                         | -----     | -----     |
| Total net loans receivable and loans held for sale at end of period       | \$682,951                     | \$623,081 | \$429,959 |
|   | =====                         | =====     | =====     |

Mortgage Brokerage. In addition to originating mortgage loans for retention in its portfolio, the Company employs ten commissioned brokers who originate mortgage loans (including construction loans) for various mortgage companies predominately in the Portland metropolitan area, 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% to 1.5% of the loan amount that it shares with the commissioned broker. Loans brokered to

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the Company are closed on the Company's books as if the Company had originated them and the commissioned broker receives a fee of approximately 0.55% of the loan amount. During the year ended March 31, 2007, brokered loans totaled \$250.7 million (including \$48.0 million brokered to the Company). Gross fees of \$2.2 million (excluding the portion of fees shared with the commissioned brokers) were recognized for the year ended March 31, 2007. The interest rate environment has a strong influence on the loan volume and amount of fees generated from the mortgage broker activity. In general, during periods of rising interest rates the volume of loans and the amount of loan fees generally decrease as a result of slower mortgage loan demand. Conversely, during periods of falling interest rates, the volume of loans and the amount of loan fees generally increase as a result of the increased mortgage loan demand.

**Mortgage Loan Servicing.** The Company is a qualified servicer for FHLMC. 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, if necessary, and to otherwise service the loans.

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The Company generally retains the servicing rights on the fixed-rate mortgage loans that it sells to FHLMC. At March 31, 2007, total loans serviced for others was \$130.6 million, of which \$110.8 million was sold to FHLMC.

The value of mortgage servicing rights is significantly affected by interest rates. In general, during periods of falling interest rates, mortgage loans repay at faster rates and the value of the mortgage servicing declines. Conversely, during periods of rising interest rates, the value of the mortgage servicing rights generally increases as a result of slower rates of prepayments. The Company may be required to recognize this decrease in value by taking a charge against its earnings, which would cause its net income to decrease. The Company has experienced stable prepayments of mortgages even as there was a slight increase in interest rates during the past two years, which has impacted the value of the servicing asset. Accordingly, the Company recognized a decrease of \$25,000 and \$24,000 for fiscal years ended March 31, 2007 and 2006, respectively in its valuation allowance for mortgage servicing rights reflecting the increase in mortgage interest rates and stable prepayment speeds. The Company believes, based on historical experience that the amount of prepayments and the related impairment charges should decrease as interest rates increase.

**Loan Origination and Other Fees.** The Company generally receives loan origination fees and discount "points." Loan fees and points are a percentage of the principal amount of the loan that is charged to the borrower for funding the loan. The Company usually charges origination fees of 1.5% to 2.0% on one-to-four family residential real estate loans, long-term commercial real estate loans and residential construction loans. Commercial loan fees are based on terms of the individual loan. Current accounting standards require fees received for originating loans to be deferred and amortized into interest income over the contractual life of the loan. Deferred fees associated with loans that are sold are recognized as gain on sale of loans. The Company had \$3.7 million of net deferred loan fees at March 31, 2007. The Company also receives loan servicing fees on the loans it sells and on which it retains the servicing rights. See Note 9 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

**Delinquencies.** The Company's collection procedures for all loans except other

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installment loans provide for a series of contacts with delinquent borrowers. A late charge delinquency notice is first sent to the borrower when the loan secured by real estate becomes 17 days past due. A follow-up telephone call, or letter if the borrower cannot be contacted by telephone, is made when the loan becomes 22 days past due. A delinquency notice is sent to the borrower when the loan becomes 30 days past due. When payment becomes 60 days past due, a notice of default letter is sent to the borrower stating that foreclosure proceedings will commence unless the delinquency is cured. If a loan continues in a delinquent status for 90 days or more, the Company generally initiates foreclosure proceedings. In certain instances, however, the Company may decide to modify the loan or grant a limited moratorium on loan payments to enable borrowers to reorganize their financial affairs.

A delinquent installment loan borrower is contacted when the loan is 15 days past due. A letter of intent to repossess collateral is mailed to the borrower after the loan becomes 45 days past due and repossession proceedings are initiated after the loan becomes 90 days delinquent.

Delinquencies in commercial loans are handled on a case-by-case basis. Generally, notices are sent and personal contact is made with the borrower when the loan is 15 days past due. Loan officers are responsible for collecting loans they originate or that are assigned to them. Depending on the nature of the loan or type of collateral securing the loan, negotiations, or other actions, are undertaken depending upon the circumstances.

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 interest appears doubtful, it is placed on non-accrual status, at which time the accrual of interest ceases and a reserve for any unrecoverable accrued interest is established and charged against operations. Typically, payments received on non-accrual loans are applied to reduce the outstanding principal balance on a cash-basis method.

The following table sets forth information with respect to the Company's nonperforming assets. At the dates indicated, the Company had no restructured loans within the meaning of Statement of Financial Accounting Standards ("SFAS") No. 15 (as amended by SFAS No. 114), Accounting by Debtors and Creditors for Troubled Debt Restructuring.

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|   | At March 31,           |       |       |        |       |
|---|------------------------|-------|-------|--------|-------|
|   | 2007                   | 2006  | 2005  | 2004   | 2003  |
|   | -----                  | ----- | ----- | -----  | ----- |
|   | (Dollars in thousands) |       |       |        |       |
| Loans accounted for on a non-accrual basis:                     |                        |       |       |        |       |
| Commercial  | \$ -                   | \$ -  | \$ 97 | \$ 872 | \$ -  |
| Other real estate mortgage                                      | 226                    | 415   | 198   | 340    | -     |
| Consumer  | -                      | -     | 161   | 89     | 323   |
|   | -----                  | ----- | ----- | -----  | ----- |
| Total   | 226                    | 415   | 456   | 1,301  | 323   |
|   | -----                  | ----- | ----- | -----  | ----- |
| Accruing loans which are contractually past due 90 days or more | -                      | -     | -     | -      | -     |
|   | -----                  | ----- | ----- | -----  | ----- |
| Total of non-accrual and 90 days past due loans                 | 226                    | 415   | 456   | 1,301  | 323   |



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|   |        |        |        |         |        |
|---|--------|--------|--------|---------|--------|
|   | ----   | ----   | ----   | -----   | ----   |
| Real estate owned   | -      | -      | 270    | 742     | 425    |
|   | ----   | ----   | ----   | -----   | ----   |
| Total nonperforming assets                                | \$ 226 | \$ 415 | \$ 726 | \$2,043 | \$ 748 |
|   | =====  | =====  | =====  | =====   | =====  |
| Total loans delinquent 90 days<br>or more to net loans    | 0.03%  | 0.07%  | 0.10%  | 0.34%   | 0.11%  |
| Total loans delinquent 90 days<br>or more to total assets | 0.03   | 0.05   | 0.08   | 0.25    | 0.08   |
| Total nonperforming assets to<br>total assets             | 0.03   | 0.05   | 0.13   | 0.39    | 0.18   |

The gross amount of interest income on the non-accrual loans that would have been recorded during the year ended March 31, 2007 if the non-accrual loans had been current in accordance with their original terms was approximately \$12,000. For the year ended March 31, 2007, \$85,000 was earned on the non-accrual loans and included in interest and fees on loans receivable interest income.

Loans not included in nonperforming or past due categories, but where information about possible credit problems causes management to be uncertain about the borrower's ability to comply with existing repayment terms, totaled \$3.9 million at March 31, 2007 and \$3.7 million at March 31, 2006.

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

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

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|                          | At or For the Year<br>Ended March 31, |         |
|--------------------------|---------------------------------------|---------|
|                          | 2007                                  | 2006    |
|                          | (In thousands)                        |         |
| Substandard assets       | \$4,143                               | \$4,066 |
| Doubtful assets          | -                                     | -       |
| Loss assets              | -                                     | -       |
| General loss allowances  | 8,623                                 | 7,221   |
| Specific loss allowances | 30                                    | -       |
| Charge-offs              | 186                                   | 711     |

The loans classified as substandard assets at March 31, 2007 are made up of nine real estate secured commercial loans totaling \$1.2 million, two commercial real estate construction loans totaling \$2.0 million and ten commercial loans totaling \$967,000.

Real Estate Owned. Real estate properties acquired through foreclosure or by deed-in-lieu of foreclosure is recorded at the lower of cost or fair value less estimated costs of disposal. Management periodically performs valuations and an allowance for loan losses is established by a charge to operations if the carrying value exceeds the estimated net realizable value. At March 31, 2007 and 2006, the Company owned no real estate properties acquired through foreclosure.

Allowance for Loan Losses. The Company maintains an allowance for loan losses to provide for 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. A key component to the evaluation is the Company's internal loan review and loan classification system. The internal loan review system provides for at least an annual review by the internal audit department of all loans that meet selected criteria. The Problem Loan Committee reviews and monitors the risk and quality of the Company's loan portfolio. The Problem Loan Committee members include the Executive Vice President Chief Credit Officer, Chairman and Chief Executive Officer, President and Chief Operating Officer, Senior Vice President and Chief Financial Officer, Senior Vice President of Credit Administration, and Vice President of Special Assets. Credit officers are expected to monitor their portfolios and make recommendations to change loan grades whenever changes are warranted. At least annually, loans that are delinquent 60 days or more and with specified outstanding loan balances are subject to review by the internal audit department. Credit Administration approves any changes to loan grades and monitors loan grades.

The Company uses the OTS loan classifications of special mention, substandard, doubtful and loss plus the additional loan classifications of pass and watch in order to assign a loan grade to be used in the determination of the proper amount of allowance for loan losses. The definition of a pass classification represents a level of credit quality, which contains no well-defined deficiency or weakness. The definition of watch classification is used to identify a loan that currently contains no well-defined deficiency or weakness, but management has deemed it desirable to closely monitor the loan.

The Company uses the loan classifications from the internal loan review and Credit Administration in the following manner to determine the amount of the allowance for loan losses. The calculation of the allowance for loan losses must consider loan classification in order to determine the amount of the allowance for loan losses for the required three separate elements of the allowance for losses: general allowances, allocated allowances and unallocated allowances.

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The general allowance element relates to assets with no well-defined deficiency or weakness such as assets classified pass or watch, and takes into consideration loss that is embedded within the portfolio but has not been realized. Borrowers are impacted by events that may ultimately result in a loan default and eventual loss well in advance of a lender's knowledge. Examples of such loss-causing events in the case of installment or one-to-four family residential loans would be a borrower job loss, divorce or medical crisis. Examples in commercial or construction loans may be loss of customers as a result of competition or changes in the economy. General allowances for each major loan type are determined by applying loss

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factors that take into consideration past loss experience, asset duration, economic conditions and overall portfolio quality to the associated loan balance.

The allocated allowance element relates to assets with well-defined deficiencies or weaknesses such as assets classified special mention, substandard, doubtful or loss. The OTS loss factors are applied against current classified asset balances to determine the amount of allocated allowances. Included in these allowances are those amounts associated with loans where it is probable that the value of the loan has been impaired and the loss can be reasonably estimated.

The unallocated allowance element is more subjective and is reviewed quarterly to take into consideration estimation errors and economic trends that are not necessarily captured in determining the general and allocated allowance.

The change in the balance of the allowance for loan losses at March 31, 2007 reflects the proportionate increase in loan balances, the change in mix of loan balances and a change in loss rate when compared to March 31, 2006. The mix of the loan portfolio showed an increase in the loan balances of commercial, other real estate and real estate construction as well as a slight increase in consumer at March 31, 2007 as compared to balances at March 31, 2006. Substandard assets and assets classified as doubtful were unchanged at \$4.1 million at March 31, 2007 and 2006.

At March 31, 2007, the Company had an allowance for loan losses of \$8.7 million, or 1.25% of total outstanding net loans at that date. The allowance for loan losses, including unfunded commitments of \$380,000, was \$9.0 million, or 1.31% of net loans at March 31, 2007. Based on past experience and probable losses inherent in the loan portfolio, management believes that loan loss reserves are adequate.

While 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"), there can be no assurance that regulators, in reviewing the Company's loan portfolio, will not request the Company to increase significantly its allowance for loan losses, thereby negatively affecting the Company's financial condition and results of operations. The following table sets forth an analysis of the Company's allowance for loan losses for the periods indicated.

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|   | Year Ended March 31,   |         |         |         |         |
|---|------------------------|---------|---------|---------|---------|
|   | 2007                   | 2006    | 2005    | 2004    | 2003    |
|   | ----                   | ----    | ----    | ----    | ----    |
|   | (Dollars in thousands) |         |         |         |         |
| Balance at beginning of period  | \$7,221                | \$4,395 | \$4,481 | \$2,739 | \$2,537 |
| Provision for loan losses   | 1,425                  | 1,500   | 410     | 210     | 727     |
| Recoveries:   |                        |         |         |         |         |
| Commercial and construction   |                        |         |         |         |         |
| Commercial  | 165                    | 87      | 156     | 74      | 63      |
| Real estate construction  | -                      | -       | -       | -       | -       |
| Total commercial and construction                                       | 165                    | 87      | 156     | 74      | 63      |
| Consumer  |                        |         |         |         |         |
| Residential real estate   | -                      | 48      | -       | 7       | 15      |
| Other installment   | 28                     | 14      | 17      | 10      | -       |
| Total consumer  | 28                     | 62      | 17      | 17      | 15      |
| Total recoveries  | 193                    | 149     | 173     | 91      | 78      |
| Charge-offs:  |                        |         |         |         |         |
| Commercial and construction   |                        |         |         |         |         |
| Commercial  | 172                    | 577     | 490     | 882     | 136     |
| Real estate construction  | -                      | -       | -       | -       | -       |
| Total commercial and construction                                       | 172                    | 577     | 490     | 882     | 136     |
| Consumer  |                        |         |         |         |         |
| Residential real estate   | -                      | 41      | 149     | 85      | 224     |
| Other installment   | 14                     | 93      | 30      | 215     | 68      |
| Total consumer  | 14                     | 134     | 179     | 300     | 292     |
| Total charge-offs   | 186                    | 711     | 669     | 1,182   | 428     |
| Net charge-offs (recoveries)  | (7)                    | 562     | 496     | 1,091   | 350     |
| Allowance acquired from Today's Bank                                    | -                      | -       | -       | 2,639   | -       |
| Allowance acquired from American Pacific Bank                           | -                      | 1,888   | -       | -       | -       |
| Net change in allowance for unfunded loan commitments                   | -                      | -       | -       | (16)    | (175)   |
| Balance at end of period  | \$8,653                | \$7,221 | \$4,395 | \$4,481 | \$2,739 |
| Ratio of allowance to total loans outstanding at end of period          | 1.25%                  | 1.15%   | 1.01%   | 1.16%   | 0.90%   |
| Ratio of net charge-offs to average net loans outstanding during period | -                      | 0.10    | 0.13    | 0.31    | 0.12    |
| Ratio of allowance to total of non-                                     |                        |         |         |         |         |

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accrual and 90 days past due loans 3,829 1,740 964 344 848

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Changes in the allowance for unfunded loan commitments:

|   | Year Ended March 31,   |        |        |        |        |
|---|------------------------|--------|--------|--------|--------|
|   | 2007                   | 2006   | 2005   | 2004   | 2003   |
|   | (Dollars in thousands) |        |        |        |        |
| Balance at beginning of period                        | \$ 362                 | \$ 253 | \$ 191 | \$ 175 | \$ -   |
| Net change in allowance for unfunded loan commitments | 18                     | 109    | 62     | 16     | 175    |
| Balance at end of period                              | \$ 380                 | \$ 362 | \$ 253 | \$ 191 | \$ 175 |

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

|                                 | At March 31,                               |         |  |         |  |         |  |       |
|---------------------------------|--|---------|--|---------|--|---------|--|-------|
|                                 | 2007                                       |         | 2006                                       |         | 2005                                       |         | 2004                                       |       |
|                                 | Loan Category as a Percent of Total Amount | Loans   | Loan Category as a Percent of Total Amount | Loans   | Loan Category as a Percent of Total Amount | Loans   | Loan Category as a Percent of Total Amount | Loans |
|                                 | (Dollars in thousands)                     |         |  |         |  |         |  |       |
| Commercial and construction:    |  |         |  |         |  |         |  |       |
| Commercial                      | \$1,553                                    | 13.18%  | \$1,549                                    | 14.29%  | \$1,834                                    | 18.02%  | \$1,589                                    | 14.9  |
| Other real estate mortgage      | 4,066                                      | 52.19   | 3,553                                      | 52.30   | 1,863                                      | 50.84   | 2,426                                      | 53.5  |
| Real estate construction        | 2,060                                      | 24.01   | 1,365                                      | 21.83   | 276  | 13.51   | 155  | 12.7  |
| Consumer:                       |  |         |  |         |  |         |  |       |
| Real estate one-to-four family  | 333  | 10.10   | 292  | 10.17   | 278  | 15.99   | 264  | 17.5  |
| Other installment               | 63   | 0.52    | 168  | 1.41    | 144  | 1.64    | 37   | 1.2   |
| Unallocated                     | 578  | -       | 294  | -       | -  | -       | 10   | -     |
| Total allowance for loan losses | \$8,653                                    | 100.00% | \$7,221                                    | 100.00% | \$4,395                                    | 100.00% | \$4,481                                    | 100.0 |

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Investment Activities

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OTS regulated institutions have authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and of state and municipal governments, deposits at the applicable FHLB, certificates of deposit of federally insured institutions, certain bankers' acceptances and federal funds. Subject to various restrictions, OTS regulated institutions may also invest a portion of their assets in commercial paper, corporate debt securities and mutual funds, the assets of which conform to the investments that federally chartered savings institutions are otherwise authorized to make directly.

Federal regulations require the Bank to maintain a minimum sufficient liquidity to ensure its safe and sound operation. Liquid assets include cash, cash equivalents consisting of short-term interest-earning deposits, certain other time deposits, and other obligations generally having remaining maturities of less than five years. It is management's intention to hold securities with short maturities in the investment portfolio in order to match more closely the interest rate sensitivities of the Company's assets and liabilities. At March 31, 2007, the Bank's liquidity ratio, the ratio of cash and eligible investments to the sum of withdrawable savings and borrowings due within one year, was 4.98%.

The Investment Committee, composed of the Company's Chairman, President, Chief Financial Officer, Controller, and one outside Director make investment decisions. The Company's investment objectives are: (i) to provide and maintain liquidity within regulatory guidelines; (ii) to maintain a balance of high quality, diversified investments to minimize risk; (iii) to provide collateral for pledging requirements; (iv) to serve as a balance to earnings; and (v) to optimize returns. At March 31, 2007, the Company's investment and mortgage-backed securities portfolio totaled \$27.1 million and consisted primarily of obligations of federal agencies, and Federal National Mortgage Association ("FNMA") and FHLMC mortgage-backed securities.

At March 31, 2007, the Company's investment securities portfolio did not contain any tax-exempt securities of any issuer with an aggregate book value in excess of 10% of the Company's consolidated shareholders' equity, excluding those securities issued by the U.S. Government or its agencies.

The Board of Directors sets the investment policy of the Company which dictates that investments be made based on the safety of the principal amount, liquidity requirements of the Company and the return on the investments. At March 31, 2007, no investment securities were held for trading. The policy does not permit investment in non-investment grade bonds and permits investment in various types of liquid assets permissible under OTS regulation, which includes U.S. Treasury obligations, securities of various federal agencies, "bank qualified" municipal bonds, certain certificates of deposit of insured banks, repurchase agreements and federal funds.

The Company has adopted SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, which requires the classification of securities at acquisition into one of three categories: held to maturity, available for sale or trading. See Note 1 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

The following table sets forth the investment securities portfolio and carrying values at the date of the investment and mortgage-backed securities portfolio was \$27.2 million, \$34.0 million and \$

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2007, 2006 and 2005, respectively.

|   | At March 31,   |                      |                |                      | Ca |
|---|----------------|----------------------|----------------|----------------------|----|
|   | 2007           |                      | 2006           |                      |    |
|   | Carrying Value | Percent of Portfolio | Carrying Value | Percent of Portfolio |    |
| (Dollars in thousands)                              |                |                      |                |                      |    |
| Held to maturity (at amortized cost):               |                |                      |                |                      |    |
| Real estate mortgage investment conduits ("REMICs") | \$ 923         | 3.40%                | \$ 1,402       | 4.13%                | \$ |
| FHLMC mortgage-backed securities                    | 116            | 0.43                 | 138            | 0.41                 |    |
| FNMA mortgage-backed securities                     | 193            | 0.71                 | 265            | 0.78                 |    |
|   | -----          | -----                | -----          | -----                |    |
|   | 1,232          | 4.54                 | 1,805          | 5.32                 |    |
|   | -----          | -----                | -----          | -----                |    |
| Available for sale (at fair value):                 |                |                      |                |                      |    |
| Agency securities                                   | 10,740         | 39.57                | 15,028         | 44.25                |    |
| REMICs  | 1,083          | 4.00                 | 1,338          | 3.94                 |    |
| FHLMC mortgage-backed securities                    | 5,439          | 20.04                | 6,635          | 19.54                |    |
| FNMA mortgage-backed securities                     | 118            | 0.43                 | 161            | 0.47                 |    |
| Municipal securities                                | 3,508          | 12.93                | 3,950          | 11.63                |    |
| Trust preferred securities                          | 5,019          | 18.49                | 5,044          | 14.85                |    |
|   | -----          | -----                | -----          | -----                |    |
|   | 25,907         | 95.46                | 32,156         | 94.68                |    |
|   | -----          | -----                | -----          | -----                |    |
| Total investment securities                         | \$27,139       | 100.00%              | \$33,961       | 100.00%              | \$ |
|   | =====          | =====                | =====          | =====                |    |

The following table sets forth the maturities and weighted average yields in the securities portfo

|                                  | Less Than One Year |                  | One to Five Years |                  | More Than Five to Ten Years |          | Am    |
|----------------------------------|--------------------|------------------|-------------------|------------------|-----------------------------|----------|-------|
|                                  | Weighted Average   | Weighted Average | Weighted Average  | Weighted Average | Weighted Average            |          |       |
|                                  | Amount             | Yield(1)         | Amount            | Yield(1)         | Amount                      | Yield(1) |       |
| (Dollars in thousands)           |                    |                  |                   |                  |                             |          |       |
| Municipal securities             | \$ 571             | 4.08%            | \$ 1,033          | 4.27%            | \$ 637                      | 4.83%    | \$ 1  |
| Agency securities                | 10,740             | 3.78             | -                 | -                | -                           | -        |       |
| REMICs                           | -                  | -                | 73                | 6.50             | 407                         | 5.02     | 1     |
| FHLMC mortgage-backed securities | -                  | -                | -                 | -                | 5,439                       | 4.02     |       |
| FNMA mortgage-backed securities  | -                  | -                | -                 | -                | 98                          | 6.22     |       |
| Trust preferred securities       | -                  | -                | -                 | -                | -                           | -        | 5     |
|                                  | -----              | -----            | -----             | -----            | -----                       | -----    | ----- |
| Total                            | \$11,311           | 3.79%            | \$ 1,106          | 4.42%            | \$ 6,581                    | 4.19%    | \$ 8  |
|                                  | =====              | =====            | =====             | =====            | =====                       | =====    | ===== |

(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 obligation

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In addition to U.S. Government treasury obligations, the Company invests in mortgage-backed securities and REMIC's. Mortgage-backed securities ("MBS"), which are also known as mortgage participation certificates or pass-through certificates, represent a participation interest in a pool of single-family or multi-family mortgages. Principal and interest payments on mortgage-backed securities are passed from the mortgage originators, through intermediaries such as FNMA, FHLMC, the Government National Mortgage Association ("GNMA") or private issuers that pool and repackage the participation interests in the form of securities to investors such as the Company. Mortgage-backed securities generally increase the quality of the Company's assets by virtue of the guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company. See Note 5 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K for additional information.

REMICs are created by redirecting the cash flows from the pool of mortgages or mortgage-backed securities underlying these securities to create two or more classes, or tranches, with different maturity or risk characteristics designed to meet a variety of investor needs and preferences. Management believes these securities may represent attractive alternatives relative to other investments because of the wide variety of maturity, repayment and interest rate options available. Current investment practices of the Company prohibit the purchase of high risk REMICs. At March 31, 2007, the Company held REMICs with a net carrying value of \$2.0 million, of which \$900,000 were classified as held-to-maturity and \$1.1 million of which were available-for-sale. REMICs may be sponsored by private issuers, such as mortgage bankers or money center banks, or by U.S. Government agencies and government-sponsored entities. At March 31, 2007, the Company owned no privately issued REMICs. See Note 5 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K for additional information.

Investments in mortgage-backed securities, including REMICs, involve a risk that actual prepayments will be greater than estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby reducing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities. In addition, the market value of such securities may be adversely affected by changes in interest rates.

The investment in municipal securities was \$3.5 million at March 31, 2007 compared to \$4.0 million at March 31, 2006.

### Deposit Activities and Other Sources of Funds

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

Deposit Accounts. The Company attracts deposits from within its primary market area by offering a broad selection of deposit instruments, including demand deposits, negotiable order of withdrawal ("NOW") accounts, money market accounts, regular savings accounts, certificates of deposit and retirement savings plans. Historically, the Company has focused on retail deposits. Expansion in commercial lending has led to growth in business deposits including demand deposit accounts. Deposit account terms vary according to



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the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of its deposit accounts, the Company considers the rates offered by its competition, profitability to the Company, matching deposit and loan products and customer preferences and concerns. The Company generally reviews its deposit mix and pricing weekly.

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### Deposit Balances

The following table sets forth information concerning the Company's certificates of deposit, other interest-bearing and non-interest bearing deposits at March 31, 2007.

| Interest<br>Rate<br>-----        | Term<br>----- | Category<br>-----  | Minimum<br>Amount<br>----- | Balance                   | Percent<br>of Total<br>Deposits<br>----- |
|----------------------------------|---------------|--|----------------------------|---------------------------|--|
|                                  |               |  |                            | (Dollars in<br>thousands) |  |
| 3.193%                           | None          | Interest checking  | \$ 100                     | \$144,451                 | 21.71%                                   |
| 0.550                            | None          | Regular savings  | 500                        | 29,472                    | 4.43                                     |
| 4.615                            | None          | Money market   | 2,500                      | 205,007                   | 30.81                                    |
| None                             | None          | Non-interest checking  | 100                        | 86,601                    | 13.01                                    |
| Total transaction accounts       |               |  |                            | 465,531                   | 69.96                                    |
| Certificates of Deposit<br>----- |               |  |                            |                           |  |
| 4.823                            | 91 Days       | Fixed-term, Fixed-rate   | 2,500                      | 22,049                    | 3.32                                     |
| 4.935                            | 182-364 Days  | Fixed-term, Fixed-rate   | 2,500                      | 30,825                    | 4.63                                     |
| 4.800                            | 12-17 Months  | Fixed-term, Fixed-rate   | 2,500                      | 55,820                    | 8.39                                     |
| 4.470                            | 18 Months     | Fixed-term, Variable<br>rate, Individual<br>Retirement account ("IRA") | 100                        | 2,410                     | 0.36                                     |
| 4.067                            | 18-23 Months  | Fixed-term, Fixed-rate   | 2,500                      | 1,540                     | 0.23                                     |
| 4.499                            | 24-35 Months  | Fixed-term, Fixed-rate   | 2,500                      | 42,848                    | 6.44                                     |
| 4.626                            | 36-59 Months  | Fixed-term, Fixed-rate   | 2,500                      | 24,076                    | 3.62                                     |
| 4.271                            | 60-83 Months  | Fixed-term, Fixed-rate   | 2,500                      | 12,855                    | 1.93                                     |
| 4.680                            | 84-120 Months | Fixed-term, Fixed-rate   | 2,500                      | 7,451                     | 1.12                                     |
| Total certificates of deposit    |               |  |                            | 199,874                   | 30.04                                    |
| Total deposits                   |               |  |                            | \$665,405                 | 100.00%                                  |
|                                  |               |  |                            | =====                     | =====                                    |

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### Deposit Flow

The following table sets forth the balances of deposit accounts in the various types offered by the Company as indicated.

At March 31,

-----  
2007

-----  
2006

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|  | Balance          | Percent        | Increase/<br>(Decrease) | Balance          | Percent        | Increase/<br>(Decrease) | Ba          |
|--|------------------|----------------|-------------------------|------------------|----------------|-------------------------|-------------|
| (Dollars in thousands)                       |                  |                |                         |                  |                |                         |             |
| Non-interest-bearing demand                  | \$ 86,601        | 13.01%         | \$ (7,991)              | \$ 94,592        | 15.58%         | \$ 15,093               | \$ 7        |
| Interest checking                            | 144,451          | 21.71          | 14,994                  | 129,457          | 21.33          | 13,228                  | 11          |
| Regular savings accounts                     | 29,472           | 4.43           | (8,872)                 | 38,344           | 6.32           | 2,831                   | 3           |
| Money market accounts                        | 205,007          | 30.81          | 67,556                  | 137,451          | 22.65          | 61,120                  | 7           |
| Certificates of deposit which<br>mature (1): |                  |                |                         |                  |                |                         |             |
| Within 12 months                             | 144,210          | 21.67          | 14,051                  | 130,159          | 21.44          | 53,101                  | 7           |
| 12-36 months                                 | 46,884           | 7.05           | (18,795)                | 65,679           | 10.82          | 26,573                  | 3           |
| Beyond 36 months                             | 8,780            | 1.32           | (2,502)                 | 11,282           | 1.86           | (21,860)                | 3           |
| <b>Total</b>                                 | <b>\$665,405</b> | <b>100.00%</b> | <b>\$ 58,441</b>        | <b>\$606,964</b> | <b>100.00%</b> | <b>\$150,086</b>        | <b>\$45</b> |

- (1) IRAs of \$17.9 million, \$16.6 million and \$15.4 million at March 31, 2007, 2006 and 2005, included in certificates of deposit balances.
- (2) The April 22, 2005 acquisition of APB deposits included \$38.1 million in transaction account deposits and \$1.1 million in certificates of deposit.

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Certificates of Deposit by Rates and Maturities

The following table sets forth the certificates of deposit classified by rates as of the dates indicated.

|                | At March 31,     |                  |                  |
|----------------|------------------|------------------|------------------|
|                | 2007             | 2006             | 2005             |
| (In thousands) |                  |                  |                  |
| Below 2.00%    | \$ 186           | \$ 2,257         | \$ 34,136        |
| 2.00 - 2.99%   | 1,381            | 22,012           | 37,157           |
| 3.00 - 3.99%   | 19,636           | 90,763           | 36,216           |
| 4.00 - 4.99%   | 120,987          | 85,746           | 30,277           |
| 5.00 - 5.99%   | 57,557           | 6,063            | 9,670            |
| 6.00 - 7.99%   | 127              | 279              | 1,850            |
| <b>Total</b>   | <b>\$199,874</b> | <b>\$207,120</b> | <b>\$149,306</b> |

The following table sets forth the amount and maturities of certificates of deposit at March 31, 2007.

|                | Amount Due            |                 |                          |                  |        |
|----------------|-----------------------|-----------------|--------------------------|------------------|--------|
|                | Less Than<br>One Year | 1 to 2<br>Years | After<br>2 to 3<br>Years | After<br>3 Years | Total  |
| (In thousands) |                       |                 |                          |                  |        |
| Below 2.00%    | \$ 186                | \$ -            | \$ -                     | \$ -             | \$ 186 |
| 2.00 - 2.99%   | 1,273                 | 55              | 15                       | 38               | 1,381  |
| 3.00 - 3.99%   | 14,328                | 2,747           | 1,663                    | 898              | 19,636 |

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|              |           |           |         |          |           |
|--------------|-----------|-----------|---------|----------|-----------|
| 4.00 - 4.99% | 81,428    | 30,795    | 2,078   | 6,686    | 120,987   |
| 5.00 - 5.99% | 46,970    | 9,197     | 232     | 1,158    | 57,557    |
| 6.00 - 7.99% | 25        | 102       | -       | -        | 127       |
|              | -----     | -----     | -----   | -----    | -----     |
| Total        | \$144,210 | \$ 42,896 | \$3,988 | \$ 8,780 | \$199,874 |
|              | =====     | =====     | =====   | =====    | =====     |

The following table presents the amount and weighted average rate of certificates of deposit equal to or greater than \$100,000 at March 31, 2007.

| Maturity Period               | Amount                 | Weighted<br>Average Rate |
|-------------------------------|------------------------|--------------------------|
|                               | -----                  | -----                    |
|                               | (Dollars in thousands) |                          |
| Three months or less          | \$ 42,620              | 4.82%                    |
| Over three through six months | 16,172                 | 4.86                     |
| Over six through 12 months    | 15,685                 | 4.87                     |
| Over 12 Months                | 24,854                 | 4.73                     |
|                               | -----                  |                          |
| Total                         | \$ 99,331              | 4.81%                    |
|                               | =====                  |                          |

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Deposit Activities

The following table sets forth the deposit activities of the Company for the periods indicated.

|                                       | Year Ended March 31,   |           |           |
|---------------------------------------|------------------------|-----------|-----------|
|                                       | 2007                   | 2006      | 2005      |
|                                       | -----                  | -----     | -----     |
|                                       | (Dollars in thousands) |           |           |
| Beginning balance                     | \$606,964              | \$456,878 | \$409,115 |
| Net increase before interest credited | 38,198                 | 137,743   | 42,342    |
| Interest credited                     | 20,243                 | 12,343    | 5,421     |
|                                       | -----                  | -----     | -----     |
| Net increase in savings deposits      | 58,441                 | 150,086   | 47,763    |
|                                       | -----                  | -----     | -----     |
| Ending balance                        | \$665,405              | \$606,964 | \$456,878 |
|                                       | =====                  | =====     | =====     |

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

The FHLB functions as a central reserve bank providing credit for savings and loan associations and certain other member financial institutions. As a member, the Bank is required to own capital stock in the FHLB and is authorized to apply for advances on the security of such stock and certain of its mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States) provided certain standards related to creditworthiness have been met. Advances are made pursuant to several different programs. Each credit program has its own

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interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's assets or on the FHLB's assessment of the institution's creditworthiness. The FHLB determines specific lines of credit for each member institution and the Bank has a 30% of total assets line of credit with the FHLB of Seattle to the extent the Bank provides qualifying collateral and holds sufficient FHLB stock. At March 31, 2007, the Bank had \$35.1 million of outstanding advances from the FHLB of Seattle under an available credit facility of \$249.9 million, which is limited to available collateral.

The following tables set forth certain information concerning the Company's FHLB borrowings at the dates and for the periods indicated.

|  | At March 31, |       |       |
|--|--------------|-------|-------|
|  | 2007         | 2006  | 2005  |
| Weighted average rate on FHLB advances | 5.66%        | 4.65% | 5.05% |

|   | Year Ended March 31,   |          |          |
|---|------------------------|----------|----------|
|   | 2007                   | 2006     | 2005     |
|   | (Dollars in thousands) |          |          |
| Maximum amounts of FHLB advances outstanding at any month end | \$90,000               | \$66,400 | \$43,000 |
| Average FHLB advances outstanding                             | 68,300                 | 51,091   | 40,274   |
| Weighted average rate on FHLB advances                        | 5.26%                  | 4.44%    | 5.00%    |

In addition, the Bank has a Fed Funds borrowing facility with Pacific Coast Bankers' Bank with a guideline limit of \$10 million through June 30, 2007. The facility may be reduced or withdrawn at any time. As of March 31, 2007,

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the Bank did not have any outstanding advances on this facility.

In December 2005 a wholly owned subsidiary grantor trust established by the Company issued \$7.0 million of pooled Trust Preferred Securities ("trust preferred securities"). Trust preferred securities accrue and pay distributions periodically at specified rates as provided in the amended and restated declaration of trust. The trust used the net proceeds from the offering to purchase a like amount of Junior Subordinated Debentures (the "Debentures") of the Company which pays interest at the same rate as distribution on the trust preferred securities. The Debentures are the sole assets of the trusts. The Company's obligations under the Debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the obligations of the trusts. The trust preferred securities are mandatory redeemable upon the maturity of the Debentures, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the Debentures in whole or in part five years after issuance on any coupon date, at a redemption price specified in the indentures plus any accrued but unpaid interest to the redemption date.

The following table is a summary of junior subordinated debentures securities at March 31, 2007:

| Preferred<br>Issuance Security | Initial Rate at Maturing |
|--------------------------------|--------------------------|
|--------------------------------|--------------------------|

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|                         | Date    | Amount  | Rate Type | Rate  | 3/31/07 | Date    |
|-------------------------|---------|---------|-----------|-------|---------|---------|
| -----                   | ----    | -----   | -----     | ----  | -----   | ----    |
| (Dollars in thousands)  |         |         |           |       |         |         |
| Issuance trust          |         |         |           |       |         |         |
| -----                   |         |         |           |       |         |         |
| Riverview Bancorp, Inc. |         |         |           |       |         |         |
| Statutory Trust 1       | 12/2005 | \$7,000 | Variable  | 5.88% | 6.71%   | 12/2035 |

The total amount of trust preferred securities outstanding at December 31, 2005 was \$7.0 million. The interest rates on the trust preferred securities reset quarterly and is tied to the London Interbank Offered Rate ("LIBOR"). The Company has the right to redeem the Debentures in December 2010.

The Debentures issued by the Company to the grantor trusts, totaling \$7.0 million, are reflected in our consolidated balance sheet in the liabilities section at December 31, 2005, under the caption "Junior subordinated debentures." The Company recorded \$217,000 in other assets in the consolidated balance sheet at March 31, 2007, for the common capital securities issued by the issuer trusts. The Company invested \$5.0 million of the trust preferred securities proceeds in the Bank and retained the remaining \$2.0 million for general corporate purposes.

### Taxation

For details regarding the Company's taxes, see Note 14 of the Notes to the consolidated financial statements contained in Item 8 of this Form 10-K.

### Personnel

As of March 31, 2007, the Company had 255 full-time equivalent employees, none of whom are represented by a collective bargaining unit. The Company believes its relationship with its employees is good.

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### Corporate Information

The Company's principal executive offices are located at 900 Washington Street, Vancouver, Washington 98660. Its telephone number is (360) 693-6650. The Company maintains a website with the address [www.riverviewbank.com](http://www.riverviewbank.com). The information contained on the Company's website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor's own Internet access charges, the Company makes available free of charge through its website the Annual Report on Form 10-K, quarterly reports on Form 10-K and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after it has electronically filed such material with, or furnished such material to, the Securities and Exchange Commission.

### Subsidiary Activities

Under OTS regulations, the Bank is authorized to invest up to 3% of its assets in subsidiary corporations, with amounts in excess of 2% only if primarily for community purposes. At March 31, 2007, the Bank's investments of \$940,000 in Riverview Services, Inc. ("Riverview Services"), its wholly owned subsidiary, and \$1.1 million in Riverview Asset Management Corp. ("RAMCorp"), an 85% owned subsidiary were within these limitations.

Riverview Services acts as a trustee for deeds of trust on mortgage loans

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granted by the Bank, and receives a reconveyance fee of approximately \$70 for each deed of trust. Riverview Services had net income of \$46,800 for the fiscal year ended March 31, 2007 and total assets of \$942,500 at that date. Riverview Services' operations are included in the Consolidated Financial Statements of the Company.

RAM Corp is an asset management company providing trust, estate planning and investment management services. RAM Corp commenced business in December 1998 and had net income of \$382,100 for the fiscal year ended March 31, 2007 and total assets of \$1.6 million at that date. RAM Corp earns fees on the management of assets held in fiduciary or agency capacity. At March 31, 2007, the fair market value of total assets under management approximated \$285.6 million. RAM Corp's operations are included in the Consolidated Financial Statements of the Company.

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

| Name               | Age (1) | Position  |
|--------------------|---------|---|
| ----               | -----   | -----   |
| Patrick Sheaffer   | 67      | Chairman of the Board and Chief Executive Officer |
| Ronald A. Wysaske  | 54      | President and Chief Operating Officer             |
| David A. Dahlstrom | 56      | Executive Vice President and Chief Credit Officer |
| Ronald L. Dobyns   | 58      | Senior Vice President and Chief Financial Officer |
| John A. Karas      | 58      | Senior Vice President                             |
| James D. Baldovin  | 48      | Senior Vice President Retail Banking              |

(1) At March 31, 2007

Patrick Sheaffer is Chairman of the Board and Chief Executive Officer of the Company and Chief Executive Officer of the Bank. Prior to February 2004, Mr. Sheaffer served as Chairman of the Board, President and Chief Executive Officer of the Company since inception in 1997. He became Chairman of the Board of the Bank in 1993. Mr. Sheaffer joined the Bank in 1965. He is responsible for leadership and management of the Company. Mr. Sheaffer is active in numerous professional and civic organizations.

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

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

Ronald L. Dobyns is Senior Vice President and Chief Financial Officer of the Company. Prior to February 2004, Mr. Dobyns served as Controller since 1996. He is responsible for accounting, SEC reporting as well as treasury functions

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for the Bank and the Company. He is a State of Oregon certified public accountant, holds an M.B.A. from the University of Minnesota and is a graduate of Pacific Coast Banking School.

John A. Karas, Senior Vice President of the Bank, also serves as Chairman of the Board, President and CEO of our subsidiary, Riverview Asset Management Corp. Mr. Karas has been employed by the Company since 1999 with over 20 years of trust experience. He is familiar with all phases of the trust business and his experience includes trust administration, trust legal council, investments and real estate. Mr. Karas received his B.A. from Willamette University and his Juris Doctor degree from Lewis & Clark Law School's Northwestern School of Law. He is a member of the Oregon, Multnomah County and American Bar Associations and is a Certified Trust and Financial Advisor. Mr. Karas is also active in numerous civic organizations.

James D. Baldovin is Senior Vice President of Retail Banking and is responsible for the Bank's branch banking network, customer service, sales and community development. Mr. Baldovin has been employed by the Bank since January 2003 and has over 22 years of banking expertise in developing and leading sales and service cultures. He holds a Bachelor of Arts degree in economics from Linfield College and is a graduate of the Pacific Coast Banking School.

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### REGULATION

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

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

#### General

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

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FDIC or Congress, could have a material adverse impact on the Company and the Bank and their operations. The Company, as a savings and loan holding company, is required to file certain reports with, is subject to examination by, and otherwise must comply with the rules and regulations of the OTS. The Company is also subject to the rules and regulations of the SEC under the federal securities laws. See "-- Savings and Loan Holding Company Regulations."

### Federal Regulation of Savings Institutions

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

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

All savings institutions are required to pay assessments to the OTS to fund the agency's operations. The general assessments, paid on a semi-annual basis, are determined based on the savings institution's total assets, including consolidated subsidiaries. The Bank's OTS assessment for the fiscal year ended March 31, 2007 was \$168,400.

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The Bank's general permissible lending limit for loans-to-one-borrower is equal to the greater of \$500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At March 31, 2007, the Bank's lending limit under this restriction was \$12.7 million and, at that date, the Bank's largest loans to one borrower was \$11.4 million, which was performing according to its original terms.

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

Federal Home Loan Bank System. The Bank is a member of the FHLB of Seattle, which is one of 12 regional FHLBs that administer the home financing credit function of savings institutions. Each FHLB serves as a reserve or central



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bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. See Business - Deposit Activities and Other Sources of Funds - Borrowings.

As a member, the Bank is required to purchase and maintain stock in the FHLB of Seattle. At March 31, 2007, the Bank had \$7.4 million in FHLB stock, which was in compliance with this requirement. In past years, the Bank has received substantial dividends on its FHLB stock until such dividends were suspended on May 18, 2005. As a result, the Bank received no dividends from the FHLB of Seattle for the year ended March 31, 2006. During the fourth quarter of the 2006 calendar year, the FHLB received approval to resume paying its members cash dividends on a quarterly basis. As a result, the Bank received \$14,700 in dividends from the FHLB of Seattle for the year ended March 31, 2007.

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

Federal Deposit Insurance Corporation. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged effective March 31, 2006. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OTS an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC recently amended its risk-based assessment system for 2007 to implement authority granted by the Federal Deposit Insurance Reform Act of 2005, which was enacted in 2006 ("Reform Act"). Under the revised system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Risk Category I, which contains the least risky depository institutions, is expected to include more than 90% of all institutions. Unlike the other categories, Risk Category I contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). The FDIC may adjust rates

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uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. No institution may pay a dividend if in default of the FDIC assessment.

The Reform Act also provided for a one-time credit for eligible institutions based on their assessment base as of December 31, 1996. Subject to certain limitations with respect to institutions that are exhibiting weaknesses, credits can be used to offset assessments until exhausted. The Bank's one-time credit is expected to be approximately \$283,000. The Reform Act also provided for the possibility that the FDIC may pay dividends to insured institutions once the Deposit Insurance Fund reserve ratio equals or exceeds 1.35% of estimated insured deposits.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and during the calendar year ending March 31, 2007 averaged 1.22 basis points of assessable deposits. The Financing Corporation was chartered in 1987, by the Federal Home Loan Bank board solely for the purpose of functioning as a vehicle for the recapitalization of the Federal Savings and Loan Insurance Corporation.

The Reform Act provided the FDIC with authority to adjust the Deposit Insurance Fund ratio to insured deposits within a range of 1.15% and 1.50%, in contrast to the prior statutorily fixed ratio of 1.25%. The ratio, which is viewed by the FDIC as the level that the fund should achieve, was established by the agency at 1.25% for 2007.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. There can be no prediction as to what insurance assessment rates will be in the future. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS. Management of the Bank is not aware of any practice, condition or violation that might lead to termination of the Bank's deposit insurance.

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

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mandatory regulatory actions. The OTS also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At March 31, 2007, the Bank was categorized as "well capitalized" under the prompt corrective action regulations of the OTS.

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

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A savings institution that fails to meet the QTL is subject to certain operating restrictions and may be required to convert to a national bank charter. Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered "qualified thrift investments." As of March 31, 2007, the Bank maintained 65.41% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

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

The risk-based capital standard requires federal savings institutions to maintain Tier I (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OTS capital regulation based on the risks believed inherent in the type of asset. Core (Tier I) capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

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The OTS also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At March 31, 2007, the Bank met each of these capital requirements. For additional information, see Note 17 of the Notes to Consolidated Financial Statements included in It