

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from _____ to _____

Commission File Number: 333-205986

RIVER FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

ALABAMA
(State or other jurisdiction of
incorporation or organization)

46-1422125
(I.R.S. Employer
Identification No.)

2611 Legends Drive
Prattville, Alabama
(Address of principal executive offices)

36066
(Zip Code)

(334) 290-1012

"Registrant's telephone number, including area code"

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	None	None

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 1, 2023, the registrant had 7,658,644 shares of common stock, \$1.00 par value per share, outstanding.

Auditor Firm Id: 669 Auditor Name: Mauldin & Jenkins, LLC Auditor Location: Birmingham, Alabama, USA

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q of River Financial Corporation (“we”, “our” or “us” on a consolidated basis) contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Such statements include projections, predictions, expectations or statements as to beliefs or future events or results or refer to other matters that are not historical facts. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. This may be especially true given the current environment of the lingering COVID-19 pandemic. The forward-looking statements contained in this report are based on various factors and were derived using numerous assumptions. In some cases, you can identify these forward-looking statements by words like “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “intend”, “believe”, “estimate”, “predict”, “potential”, or “continue” or the negative of those words and other comparable words. You should be aware that those statements reflect only our predictions. If known or unknown risks or uncertainties should materialize, or if any one or more of our material underlying assumptions should prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind when reading this report and not place undue reliance on these forward-looking statements. Factors that might cause such differences include, but are not limited to:

As set forth elsewhere in the risk factors referred to at Item 1A of Part II of this Form 10-Q, the COVID-19 pandemic could have adverse results on our financial condition and results of operations and other areas set forth in such risk factors.

The COVID-19 pandemic could exaggerate the negative consequences set forth in the following forward-looking statements and we have attempted to outline in the risk factor section of this Form 10-Q our best assessment of how such negative consequences may arise.

Acquisition related factors:

- The businesses of any bank acquired by us may not be integrated successfully or the integration may be more difficult, time-consuming or costly than expected;
- The expected growth opportunities or costs savings from such transactions may not be fully realized or may take longer to realize than expected;
- Revenues following such transactions may be lower than expected as a result of losses of customers or other reasons;
- Deposit attrition, operating costs, customer loss and business disruption following such transactions, including difficulties in maintaining relationships with employees, may be greater than expected;
- Governmental approvals of such transactions may not be obtained on the proposed terms or expected timeframe;
- Reputational risks and the reaction of the companies’ customers to such transactions;
- Diversion of management time on merger related issues.

Factors affecting our Bank generally:

- Changes in asset quality and credit risk of our Bank;
- Inflation;
- Customer acceptance of our products and services;
- Customer borrowing, repayment, investment and deposit practices;
- The negative impact on profitability imposed on us by a compressed net interest margin on loans and other extensions of credit that affects our ability to lend profitably and to price loans effectively in the face of competitive pressures;
- Our liquidity requirements could be adversely affected by changes in our assets and liabilities;
- Our ability to attract, develop and retain qualified banking professionals;
- Failure to attract or retain stable deposits at reasonable cost that is competitive with the larger international, national, and regional financial service providers with which we compete;
- Significant reliance on loans secured by real estate and the associated vulnerability to downturns in the local real estate market, natural disasters and other variables impacting the value of real estate;
- The introduction, withdrawal, success and timing of business initiatives;

- The impact, extent, and timing of technological changes;
- A weakening of the economies in which we conduct operations may adversely affect our operating results;
- The U.S. legal and regulatory framework, changes in such framework, or official or informal mandates directed by state and federal regulators in reports of examination could adversely affect our operating results;
- The interest rate environment may compress margins and adversely affect net interest income and negatively affect the market value of state, county and municipal securities held for investment;
- Competition from other financial services companies in our markets could adversely affect operations; and
- Interruption in our business and the businesses of our customers caused by a downturn in the economy, possible weather-related conditions such as tornadoes or hurricanes, and the COVID-19 pandemic.

You should also consider carefully the risk factors referred to in Item 1A of Part II of this Form 10-Q, which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements and could materially and adversely affect our business, operating results and financial condition. The risks discussed in this report are factors that, individually or in the aggregate, management believes could cause our actual results to differ materially from expected and historical results. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider such disclosures to be a complete discussion of all potential risks or uncertainties. Factors not here or there listed may develop or, if currently extant, we may not have yet recognized them.

The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

RIVER FINANCIAL CORPORATION
Consolidated Statements of Financial Condition
(in thousands except share data)

	September 30, 2023 Unaudited	December 31, 2022 Audited
<u>Assets</u>		
Cash and due from banks	\$ 37,911	\$ 31,952
Interest-bearing deposits in banks	49,189	42,874
Federal funds sold	58,000	-
Cash and cash equivalents	145,100	74,826
Certificates of deposit in banks	3,458	4,165
Securities held-to-maturity, at amortized cost	127,924	131,581
Securities available-for-sale, at fair value	602,625	665,887
Loans held for sale	6,923	3,413
Loans, net of unearned income and discounts	2,122,443	1,803,127
Less allowance for credit losses	(27,832)	(24,310)
Net loans	2,094,611	1,778,817
Premises and equipment, net	45,760	40,213
Accrued interest receivable	12,014	10,083
Bank owned life insurance	47,352	46,395
Foreclosed assets	516	609
Deferred income taxes, net	36,501	30,540
Core deposit intangible	1,594	2,116
Goodwill	27,817	27,817
Restricted equity securities	9,796	5,685
Other assets	17,045	11,235
Total assets	<u>\$ 3,179,036</u>	<u>\$ 2,833,382</u>
<u>Liabilities and Shareholders' Equity</u>		
Noninterest-bearing deposits	\$ 644,396	\$ 672,956
Interest-bearing deposits	2,132,354	1,841,243
Total deposits	2,776,750	2,514,199
Securities sold under agreements to repurchase	19,815	8,181
Federal Home Loan Bank advances	155,000	95,000
Federal Reserve Bank discount window borrowings	-	25,000
Subordinated debentures, net of loan costs	39,474	39,419
Accrued interest payable and other liabilities	14,148	13,397
Total liabilities	3,005,187	2,695,196
Common stock related to 401(k) Employee Stock Ownership Plan	4,729	4,160
<u>Stockholders' Equity</u>		
Common stock (\$1 par value; 15,000,000 and 10,000,000 shares authorized; 7,669,714 and 6,665,585 shares issued; 7,669,144 and 6,656,386 shares outstanding at September 30, 2023 and December 31, 2022, respectively)	7,670	6,666
Additional paid-in capital	136,983	104,294
Retained earnings	116,218	100,826
Accumulated other comprehensive loss	(85,187)	(71,564)
Unvested restricted stock	(1,815)	(1,730)
Treasury stock at cost (570 and 9,199 shares, respectively)	(20)	(306)
Common stock related to 401(k) Employee Stock Ownership Plan	(4,729)	(4,160)
Total stockholders' equity	169,120	134,026
Total equity	173,849	138,186
Total liabilities and stockholders' equity	<u>\$ 3,179,036</u>	<u>\$ 2,833,382</u>

The accompanying notes are an integral part of these financial statements.

RIVER FINANCIAL CORPORATION
Unaudited Consolidated Statements of Income
(in thousands except per share data)

	For the Three Months Ended:		For the Nine Months Ended:	
	September 30,		September 30,	
	2023	2022	2023	2022
Interest income:				
Loans, including fees	\$ 29,895	\$ 18,972	\$ 80,379	\$ 51,282
Taxable securities	3,498	3,481	10,767	10,053
Nontaxable securities	357	434	1,198	1,361
Federal funds sold	793	-	1,390	2
Other interest income	172	114	1,028	199
Total interest income	<u>34,715</u>	<u>23,001</u>	<u>94,762</u>	<u>62,897</u>
Interest expense:				
Deposits	12,238	1,310	29,900	2,898
Short-term borrowings	173	14	403	25
Federal Home Loan Bank advances	1,658	19	4,576	60
Subordinated debentures	418	419	1,251	1,256
Note payable	185	-	520	-
Total interest expense	<u>14,672</u>	<u>1,762</u>	<u>36,650</u>	<u>4,239</u>
Net interest income	<u>20,043</u>	<u>21,239</u>	<u>58,112</u>	<u>58,658</u>
Provision for credit losses	<u>1,311</u>	<u>1,330</u>	<u>3,933</u>	<u>2,260</u>
Net interest income after provision for credit losses	<u>18,732</u>	<u>19,909</u>	<u>54,179</u>	<u>56,398</u>
Noninterest income:				
Service charges and fees	1,946	1,787	5,569	5,121
Investment brokerage revenue	134	116	435	519
Mortgage operations	1,234	908	2,814	4,209
Bank owned life insurance income	328	312	957	922
Net gain (loss) on sales of investment securities	-	(796)	5	(2,062)
Other noninterest income	288	129	5,393	552
Total noninterest income	<u>3,930</u>	<u>2,456</u>	<u>15,173</u>	<u>9,261</u>
Noninterest expense:				
Salaries and employee benefits	9,035	8,108	27,064	22,598
Occupancy expenses	934	764	2,764	2,054
Equipment rentals, depreciation, and maintenance	530	410	1,507	1,089
Telephone and communications	129	132	409	343
Advertising and business development	390	311	1,011	687
Data processing	779	913	2,729	2,635
Foreclosed assets, net	38	22	73	(20)
Federal deposit insurance and other regulatory assessments	698	248	1,992	902
Legal and other professional services	301	376	1,302	983
Other operating expenses	2,233	2,219	6,557	5,790
Total noninterest expense	<u>15,067</u>	<u>13,503</u>	<u>45,408</u>	<u>37,061</u>
Income before income taxes	<u>7,595</u>	<u>8,862</u>	<u>23,944</u>	<u>28,598</u>
Provision for income taxes	<u>1,713</u>	<u>1,995</u>	<u>5,320</u>	<u>6,469</u>
Net income	<u>\$ 5,882</u>	<u>\$ 6,867</u>	<u>\$ 18,624</u>	<u>\$ 22,129</u>
Basic net earnings per common share	\$ 0.86	\$ 1.03	\$ 2.76	\$ 3.33
Diluted net earnings per common share	\$ 0.84	\$ 1.01	\$ 2.73	\$ 3.28
Dividends per common share	\$ -	\$ -	\$ 0.48	\$ 0.44

The accompanying notes are an integral part of these financial statements.

RIVER FINANCIAL CORPORATION
Unaudited Consolidated Statements of Comprehensive (Loss) Income
(in thousands)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Net income	\$ 5,882	\$ 6,867	\$ 18,624	\$ 22,129
Other comprehensive loss, net of tax:				
Investment securities available-for-sale:				
Net unrealized losses	(16,737)	(25,330)	(17,907)	(106,030)
Income tax effect	4,203	6,361	4,496	26,625
Reclassification adjustments for losses (gains) realized in net income	-	796	(5)	2,062
Income tax effect	-	(199)	1	(518)
Reclassification adjustment for accretion of unrealized holding loss included in accumulated other comprehensive loss from the transfer of securities from available-for-sale to held-to-maturity	(95)	(115)	(278)	(335)
Income tax effect	24	29	70	84
Other comprehensive loss, net of tax	(12,605)	(18,458)	(13,623)	(78,112)
Comprehensive (loss) income	<u>\$ (6,723)</u>	<u>\$ (11,591)</u>	<u>\$ 5,001</u>	<u>\$ (55,983)</u>

The accompanying notes are an integral part of these financial statements.

RIVER FINANCIAL CORPORATION
Unaudited Consolidated Statements of Changes in Stockholders' Equity
(in thousands except share and per share data)

	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unvested Restricted Stock	Treasury Stock	Common Stock Related to ESOP	Total Stockholders' Equity
Balance at December 31, 2022	\$ 6,666	\$ 104,294	\$ 100,826	\$ (71,564)	\$ (1,730)	\$ (306)	\$ (4,160)	\$ 134,026
Adoption of ASC topic 326			(24)					(24)
Net income	-	-	18,624	-	-	-	-	18,624
Other comprehensive loss, net of tax	-	-	-	(13,623)	-	-	-	(13,623)
Exercise of stock options (23,625 shares)	24	319	-	-	-	-	-	343
Purchase of treasury stock (16,109 shares)	-	-	-	-	-	(605)	-	(605)
Restricted stock grants, net of forfeiture (11,600 shares)	11	380	-	-	(391)	-	-	-
Sale of treasury shares (24,738 shares)	-	(51)	-	-	-	891	-	840
Issuance of common stock (968,904 shares)	969	31,974	-	-	-	-	-	32,943
Dividends declared (\$0.48 per share)	-	-	(3,208)	-	-	-	-	(3,208)
Stock-based compensation expense	-	67	-	-	306	-	-	373
Change for ESOP related shares	-	-	-	-	-	-	(569)	(569)
Balance at September 30, 2023	<u>\$ 7,670</u>	<u>\$ 136,983</u>	<u>\$ 116,218</u>	<u>\$ (85,187)</u>	<u>\$ (1,815)</u>	<u>\$ (20)</u>	<u>\$ (4,729)</u>	<u>\$ 169,120</u>

The accompanying notes are an integral part of these financial statements.

RIVER FINANCIAL CORPORATION
Unaudited Consolidated Statements of Cash Flows
(in thousands)

	For the Nine Months Ended September 30,	
	2023	2022
Cash Flows From Operating Activities:		
Net Income	\$ 18,624	\$ 22,129
Adjustments to reconcile net income to net cash from operating activities:		
Provision for credit losses	3,933	2,260
Provision for losses on foreclosed assets	91	15
Amortization of securities	2,210	3,179
Accretion of securities	(358)	(380)
Realized net (gain) loss on sales of securities available-for-sale	(5)	2,062
Accretion of discount on acquired loans	(7)	(13)
Accretion of deferred loan fees / costs	(3,115)	(2,941)
Amortization of core deposit intangible asset	522	670
Amortization of debt issuance costs	55	56
Stock-based compensation expense	373	366
Bank owned life insurance income	(957)	(922)
Depreciation and amortization of premises and equipment	2,056	1,361
Gain on sales of foreclosed assets	(51)	(80)
Deferred income tax benefit	(1,394)	(420)
(Increase) decrease in operating assets and (decrease) increase in operating liabilities:		
Loans held-for-sale	(3,510)	7,457
Accrued interest receivable	(1,931)	(1,164)
Other assets	(5,753)	1,827
Accrued interest payable and other liabilities	751	408
Net cash from operating activities	<u>11,534</u>	<u>35,870</u>
Cash Flows Used For Investing Activities:		
Maturity of certificate of deposit	722	497
Activity in securities available-for-sale:		
Sales of securities available-for-sale	15,252	168,627
Maturities, payments, calls of securities available-for-sale	32,704	55,391
Purchases of securities available-for-sale	(4,861)	(193,401)
Activity in securities held-to-maturity:		
Maturities, payments, calls of securities held-to-maturity	3,772	4,880
Purchases of securities held-to-maturity	-	(12,764)
Loan principal originations, net	(317,130)	(378,495)
Proceeds from sale of foreclosed assets	497	444
Purchases of premises and equipment	(7,603)	(4,408)
Purchase of restricted equity securities, net	(4,111)	(916)
Net cash used for investing activities	<u>(280,758)</u>	<u>(360,145)</u>
Cash Flows From Financing Activities:		
Net increase in deposits	262,551	282,681
Net decrease (increase) in securities sold under agreements to repurchase	11,634	(2,803)
Proceeds from Federal Home Loan Bank advances	250,000	50,000
Repayment of Federal Home Loan Bank advances	(190,000)	(30,000)
Proceeds from issuance of line of credit	12,000	-
Repayment of line of credit	(12,000)	-
Proceeds from Federal Reserve Bank discount window borrowings	26,500	-
Repayment of Federal Reserve Bank discount window borrowings	(51,500)	-
Federal funds purchased	-	1,883
Proceeds from issuance of common stock	32,943	-
Proceeds from exercise of common stock options	343	449
Purchase of treasury stock	(605)	(753)
Sale of treasury stock	840	677
Cash dividends	(3,208)	(2,918)
Net cash from financing activities	<u>339,498</u>	<u>299,216</u>
Net Change In Cash And Cash Equivalents	<u>70,274</u>	<u>(25,059)</u>
Cash and Cash Equivalents At Beginning Of Period	<u>74,826</u>	<u>61,962</u>
Cash and Cash Equivalents At End Of Period	<u>\$ 145,100</u>	<u>\$ 36,903</u>
Supplemental Disclosures Of Cash Flows Information:		
Cash Payments For:		
Interest paid to depositors	\$ 29,471	\$ 2,875
Interest paid on borrowings	\$ 6,872	\$ 1,263
Income taxes	\$ 5,680	\$ 3,020
Non-cash investing and financing activities:		
Transfer of loans to foreclosed assets	\$ 444	\$ 637
Transfer of securities from available-for-sale to held-to-maturity	\$ -	\$ 74,964
Restricted stock grant	\$ 391	\$ -

The accompanying notes are an integral part of these financial statements.

River Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(amounts in thousands, except share and per share data)

Note 1 – Basis of Presentation

General

The unaudited consolidated financial statements include the accounts of River Financial Corporation (“River” or the “Company”) and its wholly owned subsidiary, River Bank & Trust (“Bank”). The Bank provides a full range of commercial and consumer banking services primarily in the Montgomery, Alabama metropolitan area, Autauga, Baldwin, Chilton, Coffee, Elmore, Etowah, Houston, Jefferson, Lee, Madison, Mobile, Morgan and Tallapoosa counties and surrounding counties in Alabama. The Bank is primarily regulated by the Federal Deposit Insurance Corporation (FDIC) and undergoes periodic examinations by this regulatory agency and the Alabama Banking Department. The Company is regulated by the Federal Reserve Bank (FRB) and is also subject to periodic examinations.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly River Financial Corporation’s consolidated statements of financial condition, statements of income, statements of comprehensive (loss) income, statements of changes in stockholders’ equity and statements of cash flows for the periods presented, and all such adjustments are of a normal recurring nature. All material intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire year.

These interim consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and, therefore, certain information and note disclosures normally presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been omitted or abbreviated. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes as of December 31, 2022, which are contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

Preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Estimates are used in accounting for, among other items, the allowance for credit losses, foreclosed asset valuations, useful lives for depreciation and amortization, fair value of financial instruments, deferred taxes, and contingencies. Estimates that are particularly susceptible to significant change for the Company include the determination of the allowance for credit losses, investment securities impairment, and assessment of deferred tax assets and liabilities, and therefore are critical accounting policies. Management does not anticipate any material changes to estimates in the near term. Factors that may cause sensitivity to the aforementioned estimates include but are not limited to: external market factors such as market interest rates and employment rates, changes to operating policies and procedures, economic conditions in our markets, and changes in applicable banking regulations. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual reporting period presented.

Significant Accounting Policies

Allowance for credit losses and provision for credit losses

As described below under Recent Adopted Accounting Pronouncements, the Company adopted Accounting Standards Update (ASU) 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (CECL) effective January 1, 2023.

The allowance for credit losses represents management’s estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Bank measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. Generally, collectively assessed loans are grouped by call report code and then risk grade grouping. Risk grade is grouped within each call report code by pass, watch, special mention, substandard, and doubtful. Other loan types are separated into their own cohorts due to specific risk characteristics for that pool of loans.

The Bank has elected a non-discounted cash flow methodology with a probability of default (PD) and loss-given default (LGD) for all cohorts. The PD calculation looks at the historical loan portfolio at particular points in time (each month during the lookback period) to determine the probability that loans in a certain cohort will default over the next 12-month period. A default is defined as a loan that has moved to past due 90 days and greater, nonaccrual status, or experienced a charge-off during the period. Currently, the

Bank's historical data is insufficient due to a minimal amount of default activity or zero defaults, therefore management uses index PDs comprised of rates derived from the PD experience of other community banks in place of the Bank's historical PDs.

The LGD calculation looks at actual losses (net charge-offs) experienced over the entire lookback period for each cohort of loans. The aggregate loss amount is divided by the exposure at default to determine an LGD rate. All defaults (non-accrual, charge-off, or greater than 90 days past due) occurring during the lookback period are included in the denominator, whether a loss occurred or not and exposure at default is determined by the loan balance immediately preceding the default event (i.e. nonaccrual or charge-off). Due to the very limited charge-off history, management uses index LGDs comprised of rates derived from the LGD experience of other community banks in place of the Bank's historical LGDs.

The Bank utilizes reasonable and supportable forecasts of future economic conditions when estimating the allowance for credit losses on loans. The calculation includes a 12-month PD forecast based on the peer index regression model comparing peer defaults to the national unemployment rate. After the forecast period, PD rates revert on a straight-line basis back to long-term historical average rates over 12 months.

The Bank recognizes that all significant factors that affect the collectability of the loan portfolio must be considered to determine the estimated credit losses as of the evaluation date. Furthermore, the methodology, in and of itself and even when selectively adjusted by comparison to market and peer data, does not provide a sufficient basis to determine the estimated credit losses. The Bank adjusts the modeled historical losses by a qualitative adjustment to incorporate all significant risks to form a sufficient basis to estimate the credit losses. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, and concentrations, trends in underlying collateral, as well as external factors and economic conditions not already captured.

Loans that do not share risk characteristics are evaluated on an individual basis. Generally, this population includes loans on non-accrual status, however, they can also include any loan that does not share risk characteristics with its respective pool. When management determines that foreclosure is probable and the borrower is experiencing financial difficulty, the expected credit losses are based on the fair value of the collateral at the reporting date unadjusted for selling costs as appropriate. When the expected source of repayment is from a source other than the underlying collateral, impairment will generally be measured based on the present value of expected proceeds discounted at the contractual interest rate.

The loss allocations for individually assessed and collectively assessed loans are totaled to determine the total required allowance for credit losses. This total is compared to the current allowance on the Bank's books and adjustments made accordingly by a charge or credit to the provision for credit losses.

Investment Securities Impairment

Effective January 1, 2023, the Company estimates and recognizes an allowance for credit losses for held-to-maturity (HTM) debt securities pursuant to ASU No. 2016-13. The Company has a zero loss expectation for its HTM securities portfolio, except for U.S. State and Municipal securities, and therefore it is not required to estimate an allowance for credit losses related to these securities. For HTM securities that do not have a zero loss expectation, the allowance for credit losses is based on the security's amortized cost, excluding interest receivable, and represents the portion of the amortized cost that the Company does not expect to collect over the life of the security. The allowance for credit losses is determined using average industry credit ratings and historical loss experience, and is initially recognized upon acquisition of the securities, and subsequently remeasured on a recurring basis. The Company evaluates available for sale (AFS) debt securities that experienced a decline in fair value below amortized cost for credit impairment. In performing an assessment of whether any decline in fair value is due to a credit loss, the Company considers the extent to which the fair value is less than the amortized cost, changes in credit ratings, any adverse economic conditions, as well as all relevant information at the individual security level, such as credit deterioration of the issuer, explicit or implicit guarantees by the federal government or collateral underlying the security. If it is determined that the decline in fair value was due to credit losses, an allowance for credit losses is recorded, limited to the amount the fair value is less than the amortized cost basis. The non-credit related decrease in the fair value, such as a decline due to changes in market interest rates, is recorded in other comprehensive (loss) income, net of tax. The Company recognizes a credit impairment if the Company has the intent to sell the security, or it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost. Prior to the adoption of ASU No. 2016-13 Management evaluated AFS and HTM debt securities for other-than-temporary-impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

Note 2 – Reclassifications

Certain prior period amounts have been reclassified to conform to the presentation used in 2023. These reclassifications had no material effect on the operations, financial condition or cash flows of the Company.

Note 3 – Earnings Per Share

Basic earnings per common share are computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per common share are computed by dividing net income by the effect of the issuance of potential common shares that are dilutive and by the sum of the weighted-average number of shares of common stock outstanding. All shares owned by the Company's 401(k) Employee Stock Ownership Plan (ESOP) are included in the earnings per share calculations.

The reconciliation of the components of the basic and diluted earnings per share is as follows (amounts in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Net earnings available to common shareholders	\$ 5,882	\$ 6,867	\$ 18,624	\$ 22,129
Weighted average common shares outstanding	6,870,594	6,658,353	6,738,010	6,638,550
Dilutive effect of stock options	94,709	124,679	94,413	108,609
Diluted common shares	6,965,303	6,783,032	6,832,423	6,747,159
Basic earnings per common share	\$ 0.86	\$ 1.03	\$ 2.76	\$ 3.33
Diluted earnings per common share	\$ 0.84	\$ 1.01	\$ 2.73	\$ 3.28

Note 4 – Investment Securities

The following tables summarize the amortized cost and fair value of securities available-for-sale and securities held-to-maturity and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive loss at September 30, 2023 and December 31, 2022 (amounts in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2023:				
Securities available-for-sale:				
Residential mortgage-backed	\$ 421,870	\$ -	\$ (72,901)	\$ 348,969
U.S. treasury securities	130,778	-	(14,097)	116,681
U.S. govt. sponsored enterprises	69,586	-	(7,117)	62,469
State, county, and municipal	73,642	-	(14,227)	59,415
Corporate debt obligations	17,774	8	(2,691)	15,091
Total available-for-sale	<u>\$ 713,650</u>	<u>\$ 8</u>	<u>\$ (111,033)</u>	<u>\$ 602,625</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2023:				
Securities held-to-maturity:				
Residential mortgage-backed	\$ 65,070	\$ -	\$ (15,217)	\$ 49,853
State, county, and municipal	62,854	-	(15,044)	47,810
Total held-to-maturity	<u>\$ 127,924</u>	<u>\$ -</u>	<u>\$ (30,261)</u>	<u>\$ 97,663</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022:				
Securities available-for-sale:				
Residential mortgage-backed	\$ 449,348	\$ -	\$ (59,311)	\$ 390,037
U.S. treasury securities	130,971	-	(13,342)	117,629
U.S. govt. sponsored enterprises	72,889	-	(6,527)	66,362
State, county, and municipal	87,347	71	(11,555)	75,863
Corporate debt obligations	17,873	16	(1,893)	15,996
Total available-for-sale	<u>\$ 758,428</u>	<u>\$ 87</u>	<u>\$ (92,628)</u>	<u>\$ 665,887</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022:				
Securities held-to-maturity:				
Residential mortgage-backed	\$ 68,688	\$ -	\$ (12,624)	\$ 56,064
State, county, and municipal	62,893	-	(13,680)	49,213
Total held-to-maturity	<u>\$ 131,581</u>	<u>\$ -</u>	<u>\$ (26,304)</u>	<u>\$ 105,277</u>

The Company reassessed classification of certain investments, and effective February 2022, the Company transferred \$75 million of residential mortgage-backed securities from available-for-sale to held-to-maturity. The transfer occurred at fair value. The related unrealized loss of \$3.4 million included in accumulated other comprehensive loss remained in accumulated other comprehensive loss, to be amortized out of accumulated other comprehensive loss with an offsetting entry to interest income as a yield adjustment through earnings over the remaining term of the securities. No gain or loss was recorded at the time of transfer.

The Company has a zero loss expectation for its HTM securities portfolio, except for U.S. State and Municipal securities, and therefore it is not required to estimate an allowance for credit losses related to these securities. For HTM securities that do not have a zero loss expectation, the allowance for credit losses is based on the security's amortized cost, excluding interest receivable, and represents the portion of the amortized cost that the Company does not expect to collect over the life of the security. The allowance for credit losses is determined using average industry credit ratings and historical loss experience, and is initially recognized upon acquisition of the securities, and subsequently remeasured on a recurring basis. The Company evaluates available for sale (AFS) debt securities that experienced a decline in fair value below amortized cost for credit impairment. In performing an assessment of whether any decline in fair value is due to a credit loss, the Company considers the extent to which the fair value is less than the amortized cost, changes in credit ratings, any adverse economic conditions, as well as all relevant information at the individual security level, such as credit deterioration of the issuer, explicit or implicit guarantees by the federal government or collateral underlying the security. If it is determined that the decline in fair value was due to credit losses, an allowance for credit losses is recorded, limited to the amount the fair value is less than the amortized cost basis. The non-credit related decrease in the fair value, such as a decline due to changes in market interest rates, is recorded in other comprehensive (loss) income, net of tax. The Company recognizes a credit impairment if the Company has the intent to sell the security, or it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost.

The following tables summarize securities with unrealized and unrecognized losses as of September 30, 2023 and December 31, 2022 aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position (amounts in thousands):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2023:						
Securities available-for-sale:						
Residential mortgage-backed	\$ 4,274	\$ 122	\$ 344,695	\$ 72,779	\$ 348,969	\$ 72,901
U.S. treasury securities	-	-	116,681	14,097	116,681	14,097
U.S. govt. sponsored enterprises	8,482	52	53,987	7,065	62,469	7,117
State, county & municipal	928	72	58,487	14,155	59,415	14,227
Corporate debt obligations	931	22	12,705	2,669	13,636	2,691
Total available-for-sale	<u>\$ 14,615</u>	<u>\$ 268</u>	<u>\$ 586,555</u>	<u>\$ 110,765</u>	<u>\$ 601,170</u>	<u>\$ 111,033</u>
Securities held-to-maturity:						
Residential mortgage-backed	\$ -	\$ -	\$ 49,853	\$ 15,217	\$ 49,853	\$ 15,217
State, county & municipal	-	-	42,464	15,044	42,464	15,044
Total held-to-maturity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,317</u>	<u>\$ 30,261</u>	<u>\$ 92,317</u>	<u>\$ 30,261</u>
December 31, 2022:						
Securities available-for-sale:						
Residential mortgage-backed	\$ 133,675	\$ 15,215	\$ 253,994	\$ 44,096	\$ 387,669	\$ 59,311
U.S. treasury securities	-	-	117,629	13,342	117,629	13,342
U.S. govt. sponsored enterprises	32,695	2,449	33,523	4,078	66,218	6,527
State, county & municipal	53,744	7,250	17,905	4,305	71,649	11,555
Corporate debt obligations	3,190	310	11,352	1,583	14,542	1,893
Total available-for-sale	<u>\$ 223,304</u>	<u>\$ 25,224</u>	<u>\$ 434,403</u>	<u>\$ 67,404</u>	<u>\$ 657,707</u>	<u>\$ 92,628</u>
Securities held-to-maturity:						
Residential mortgage-backed	\$ -	\$ -	\$ 56,064	\$ 12,624	\$ 56,064	\$ 12,624
State, county & municipal	10,057	2,706	33,811	10,974	43,868	13,680
Total held-to-maturity	<u>\$ 10,057</u>	<u>\$ 2,706</u>	<u>\$ 89,875</u>	<u>\$ 23,598</u>	<u>\$ 99,932</u>	<u>\$ 26,304</u>

The Company owned a total of 334 securities with unrealized losses of \$141.3 million at September 30, 2023. The unrealized losses were primarily attributable to changes in interest rates, rather than deterioration in credit quality. The individual securities are each investment grade securities. The Company considers factors such as the financial condition of the issuer including credit ratings and specific events affecting the operations of the issuer, volatility of the security, underlying assets that collateralize the debt security, and other industry and macroeconomic conditions. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. As such, there is no allowance for credit losses on available for sale or held to maturity securities recognized as of September 30, 2023.

As of September 30, 2023 and December 31, 2022, securities with a carrying value of approximately \$339.1 million and \$242.3 million, respectively, were pledged to secure public deposits as required by law. At September 30, 2023 and December 31, 2022, the carrying value of securities pledged to secure repurchase agreements was approximately \$25.6 million and \$16.2 million, respectively.

During the nine months ended September 30, 2023, the Company sold investment securities for proceeds of \$15.3 million and realized gains of \$5.0 thousand. During the nine months ended September 30, 2022, the Company sold investment securities for proceeds of \$168.6 million and realized losses of \$2.1 million.

The amortized cost and estimated fair value of debt securities at September 30, 2023 and December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities for residential mortgage backed securities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. These securities are therefore not presented by maturity classification.

	September 30, 2023		December 31, 2022	
	Amortized Cost (In Thousands)	Fair Value (In Thousands)	Amortized Cost (In Thousands)	Fair Value (In Thousands)
Securities available-for-sale				
Less than 1 year	\$ 2,500	\$ 2,386	\$ 1,055	\$ 1,054
1 to 5 years	160,094	142,781	141,565	127,459
5 to 10 years	55,082	47,411	77,174	68,737
After 10 years	74,104	61,078	89,286	78,600
	<u>291,780</u>	<u>253,656</u>	<u>309,080</u>	<u>275,850</u>
Residential mortgage-backed securities	421,870	348,969	449,348	390,037
Total available-for-sale	<u>\$ 713,650</u>	<u>\$ 602,625</u>	<u>\$ 758,428</u>	<u>\$ 665,887</u>
	September 30, 2023		December 31, 2022	
	Amortized Cost (In Thousands)	Fair Value (In Thousands)	Amortized Cost (In Thousands)	Fair Value (In Thousands)
Securities held-to-maturity				
5 to 10 years	\$ 14,949	\$ 11,625	\$ 10,208	\$ 8,118
After 10 years	47,905	36,185	52,685	41,095
	<u>62,854</u>	<u>47,810</u>	<u>62,893</u>	<u>49,213</u>
Residential mortgage-backed securities	65,070	49,853	68,688	56,064
Total held-to-maturity	<u>\$ 127,924</u>	<u>\$ 97,663</u>	<u>\$ 131,581</u>	<u>\$ 105,277</u>

Note 5 – Loans, Allowance for Credit Losses and Credit Quality

Major classifications of loans at September 30, 2023 and December 31, 2022 are summarized as follows (amounts in thousands):

	September 30, 2023		December 31, 2022	
	Amount	% of Total	Amount	% of Total
Residential real estate:				
Closed-end 1-4 family - first lien	\$ 727,298	34.7%	\$ 573,033	32.2%
Closed-end 1-4 family - junior lien	11,666	0.6%	9,422	0.5%
Multi-family	19,162	0.9%	14,106	0.8%
Total residential real estate	<u>758,126</u>	<u>36.2%</u>	<u>596,561</u>	<u>33.5%</u>
Commercial real estate:				
Nonfarm nonresidential	548,800	26.2%	497,766	28.0%
Farmland	58,981	2.8%	53,691	3.0%
Total commercial real estate	<u>607,781</u>	<u>29.0%</u>	<u>551,457</u>	<u>31.0%</u>
Construction and land development:				
Residential	106,716	5.1%	121,363	6.8%
Other	169,031	8.1%	135,127	7.6%
Total construction and land development	<u>275,747</u>	<u>13.2%</u>	<u>256,490</u>	<u>14.4%</u>
Home equity lines of credit	84,405	4.0%	64,215	3.6%
Commercial loans:				
Other commercial loans	244,890	11.7%	193,053	10.9%
Agricultural	66,320	3.2%	56,946	3.2%
State, county, and municipal loans	36,058	1.7%	40,964	2.3%
Total commercial loans	<u>347,268</u>	<u>16.6%</u>	<u>290,963</u>	<u>16.4%</u>
Consumer loans				
Total gross loans	2,130,356	101.7%	1,809,278	101.7%
Allowance for credit losses	(27,832)	-1.3%	(24,310)	-1.4%
Net discounts	(140)	0.0%	(279)	0.0%
Net deferred loan fees	(7,773)	-0.4%	(5,872)	-0.3%
Net loans	<u>\$ 2,094,611</u>	<u>100.0%</u>	<u>\$ 1,778,817</u>	<u>100.0%</u>

The Bank grants loans and extensions of credit to individuals and a variety of businesses and corporations located in its general trade area. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to-income, collateral type and loan-to-value ratios for consumer loans.

The loan portfolio has been disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are three primary loan portfolio segments that include real estate, commercial, and consumer. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and the Company's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include residential real estate, commercial real estate, construction and land development and home equity lines of credit. The portfolio segments of non-real estate commercial loans and consumer loans have not been further segregated by class.

The following describe risk characteristics relevant to each of the portfolio segments:

Real estate - As discussed below, the Company offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

Residential real estate and home equity lines of credit are repaid by various means such as through a borrower's income, sale of the property, or rental income derived from the property.

Commercial real estate loans include both owner-occupied commercial real estate loans and other commercial real estate loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are repaid by cash flow generated from the business operation. Real estate loans for income-producing properties such as office and industrial buildings and retail shopping centers are repaid from rent income derived from the properties. Loans secured by farmland are repaid by various means such as through a borrower's income, sale of the property, or rental income derived from the property.

Construction and land development loans are repaid through cash flow related to the operations, sale or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.

Commercial loans - The commercial loan portfolio segment includes commercial and industrial loans, agricultural loans and loans to states and municipalities. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or expansion projects. Loans are repaid by business cash flows or tax revenues. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly by cash flows from the customers' business operations.

Consumer loans - The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

Under the current expected credit losses (CECL) methodology, the allowance for credit losses is measured on a collective basis for pools of loans with similar risk characteristics. For loans that do not share similar risk characteristics with the collectively evaluated pools, evaluations are performed on an individual basis. For all loan segments collectively evaluated, losses are predicted over a period of time determined to be reasonable and supportable, and at the end of the reasonable and supportable forecast period losses are reverted to long-term historical averages. The estimated loan losses for all loan segments are adjusted for changes in qualitative factors not inherently considered in the quantitative analyses.

The following tables present the balance in the allowance for credit losses by portfolio segment. It also includes the balance in the allowance for credit losses and the recorded investment in loans by portfolio segment and based on impairment method for the periods indicated below (amounts in thousands).

	Real Estate Mortgage Loans			Home equity lines of credit	Commercial	Consumer	Total
	Residential	Commercial	Construction and land development				
Allowance for Credit Losses							
Balance - December 31, 2022 prior to adoption of ASC 326	\$ 5,088	\$ 10,057	\$ 3,377	\$ 562	\$ 4,778	\$ 448	\$ 24,310
Impact of adopting ASC 326	-	-	-	-	73	7	80
Provision for credit loss	1,397	1,048	539	328	412	209	3,933
Loan charge-offs	-	-	(196)	-	(510)	(98)	(804)
Loan recoveries	-	81	-	-	205	27	313
Balance - September 30, 2023	<u>\$ 6,485</u>	<u>\$ 11,186</u>	<u>\$ 3,720</u>	<u>\$ 890</u>	<u>\$ 4,958</u>	<u>\$ 593</u>	<u>\$ 27,832</u>
Ending balance:							
Individually evaluated for impairment	\$ 14	\$ 322	\$ -	\$ -	\$ 26	\$ 37	\$ 399
Collectively evaluated for impairment	6,471	10,864	3,720	890	4,932	556	27,433
Total	<u>\$ 6,485</u>	<u>\$ 11,186</u>	<u>\$ 3,720</u>	<u>\$ 890</u>	<u>\$ 4,958</u>	<u>\$ 593</u>	<u>\$ 27,832</u>
Loans:							
Individually evaluated for impairment	\$ 1,403	\$ 3,712	\$ -	\$ 527	\$ 26	\$ 37	\$ 5,705
Collectively evaluated for impairment	756,723	604,069	275,747	83,878	347,242	56,992	2,124,651
Total	<u>\$ 758,126</u>	<u>\$ 607,781</u>	<u>\$ 275,747</u>	<u>\$ 84,405</u>	<u>\$ 347,268</u>	<u>\$ 57,029</u>	<u>\$ 2,130,356</u>

	Real Estate Mortgage Loans			Home equity lines of credit	Commercial	Consumer	Total
	Residential	Commercial	Construction and land development				
Allowance for Loan Losses							
Balance - December 31, 2021	\$ 2,596	\$ 8,038	\$ 2,992	\$ 396	\$ 6,486	\$ 414	\$ 20,922
Provision (credit) for loan losses	1,940	1,285	317	93	(1,378)	3	2,260
Loan charge-offs	(42)	-	-	-	(205)	(22)	(269)
Loan recoveries	-	63	5	41	50	19	178
Balance - September 30, 2022	<u>\$ 4,494</u>	<u>\$ 9,386</u>	<u>\$ 3,314</u>	<u>\$ 530</u>	<u>\$ 4,953</u>	<u>\$ 414</u>	<u>\$ 23,091</u>
Ending balance:							
Individually evaluated for impairment	\$ 20	\$ 230	\$ -	\$ -	\$ 40	\$ 50	\$ 340
Collectively evaluated for impairment	4,474	9,156	3,314	530	4,913	364	22,751
Total	<u>\$ 4,494</u>	<u>\$ 9,386</u>	<u>\$ 3,314</u>	<u>\$ 530</u>	<u>\$ 4,953</u>	<u>\$ 414</u>	<u>\$ 23,091</u>
Loans:							
Individually evaluated for impairment	\$ 1,320	\$ 4,564	\$ 203	\$ 104	\$ 40	\$ 50	\$ 6,281
Collectively evaluated for impairment	522,426	503,042	243,732	60,632	269,622	47,312	1,646,766
Acquired loans with deteriorated credit quality	-	-	7	-	-	-	7
Total	<u>\$ 523,746</u>	<u>\$ 507,606</u>	<u>\$ 243,942</u>	<u>\$ 60,736</u>	<u>\$ 269,662</u>	<u>\$ 47,362</u>	<u>\$ 1,653,054</u>

The Company's unfunded lending commitments are unconditionally cancellable and therefore no allowance for credit losses has been recorded.

Treatment of Pandemic-related Loan Modifications Pursuant to the CARES Act and Interagency Statement

Section 4013 of the CARES Act, enacted on March 27, 2020, provided that, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 pandemic declared by the President of the United States under the National Emergencies Act terminates (the “applicable period”), we may elect to suspend GAAP for loan modifications related to the pandemic that would otherwise be categorized as troubled debt restructurings (TDR) and suspend any determination of a loan modified as a result of the effects of the pandemic as being a TDR, including impairment for accounting purposes. The suspension was applicable for the term of the loan modification that occurred during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019. The suspension was not applicable to any adverse impact on the credit of a borrower that was not related to the pandemic.

In addition, our banking regulators and other financial regulators, on March 22, 2020 and revised April 7, 2020, issued a joint interagency statement titled the “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus” that encouraged financial institutions to work prudently with borrowers who were unable to meet their contractual payment obligations due to the effects of the COVID-19 pandemic. Pursuant to the interagency statement, loan modifications that did not meet the conditions of Section 4013 of the CARES Act may still qualify as a modification that does not need to be accounted for as a TDR. Specifically, the agencies confirmed with the staff of the Financial Accounting Standards Board that short-term modifications made in good faith in response to the pandemic to borrowers who were current prior to any relief were not TDRs under GAAP. This included short-term (e.g. six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that were insignificant. Borrowers considered current were those that were less than 30 days past due on their contractual payments at the time a modification program was implemented. Appropriate allowances for loan and lease losses were expected to be maintained. With regard to loans not otherwise reportable as past due, financial institutions were not expected to designate loans with deferrals granted due to the pandemic as past due because of the deferral. The interagency statement also stated that during short-term pandemic-related loan modifications, these loans generally should not be reported as nonaccrual.

We have received requests from our borrowers for loan and lease deferrals and modifications including the deferral of principal payments or the deferral of principal and interest payments for terms generally around 90-180 days. Requests are evaluated individually and approved modifications are based on the unique circumstances of each borrower. In total, the Bank placed approximately \$167 million of loans on a loan deferral plan as part of COVID-19 modifications. As of September 30, 2023, however, none of these loans remain on deferral. In accordance with Section 4013 of the CARES Act and the interagency statement, we have not accounted for such loans as TDRs, nor have we designated them as past due or nonaccrual. The risk ratings for these loans are evaluated regularly and evaluated for impairment if deemed necessary.

The following table presents collateral dependent impaired loans by class of loans as of September 30, 2023 (amounts in thousands). Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. The Company reviews individually evaluated loans for designation as collateral dependent loans, as well as other loans that management of the Company designates as having higher risk. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. The Company considers all impaired loans to be collateral dependent.

Nonaccruing Collateral Dependent Loans	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Credit Losses
Mortgage loans on real estate:					
Residential real estate	\$ 770	\$ 770	\$ 770	\$ -	\$ -
Commercial real estate	2,938	2,938	1,569	1,369	322
Construction and land development	-	-	-	-	-
Total mortgage loans on real estate	3,708	3,708	2,339	1,369	322
Home equity lines of credit	527	527	527	-	-
Commercial loans	-	-	-	-	-
Consumer loans	-	-	-	-	-
Total Loans	<u>\$ 4,235</u>	<u>\$ 4,235</u>	<u>\$ 2,866</u>	<u>\$ 1,369</u>	<u>\$ 322</u>

Accruing Collateral Dependent Loans	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Credit Losses
Mortgage loans on real estate:					
Residential real estate	\$ 633	\$ 633	\$ 466	\$ 167	\$ 14
Commercial real estate	774	774	774	-	-
Construction and land development	-	-	-	-	-
Total mortgage loans on real estate	1,407	1,407	1,240	167	14
Home equity lines of credit	-	-	-	-	-
Commercial loans	26	26	-	26	26
Consumer loans	37	37	-	37	37
Total Loans	<u>\$ 1,470</u>	<u>\$ 1,470</u>	<u>\$ 1,240</u>	<u>\$ 230</u>	<u>\$ 77</u>

Total Collateral Dependent Loans	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Credit Losses
Mortgage loans on real estate:					
Residential real estate	\$ 1,403	\$ 1,403	\$ 1,236	\$ 167	\$ 14
Commercial real estate	3,712	3,712	2,343	1,369	322
Construction and land development	-	-	-	-	-
Total mortgage loans on real estate	5,115	5,115	3,579	1,536	336
Home equity lines of credit	527	527	527	-	-
Commercial loans	26	26	-	26	26
Consumer loans	37	37	-	37	37
Total Loans	<u>\$ 5,705</u>	<u>\$ 5,705</u>	<u>\$ 4,106</u>	<u>\$ 1,599</u>	<u>\$ 399</u>

The following table presents impaired loans by class of loans as of December 31, 2022 (amounts in thousands).

	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Nonaccruing Impaired Loans					
Mortgage loans on real estate:					
Residential real estate	\$ 239	\$ 239	\$ 239	\$ -	\$ -
Commercial real estate	599	599	373	226	241
Construction and land development	-	-	-	-	-
Total mortgage loans on real estate	838	838	612	226	241
Home equity lines of credit	-	-	-	-	-
Commercial loans	-	-	-	-	-
Consumer loans	-	-	-	-	-
Total Loans	<u>\$ 838</u>	<u>\$ 838</u>	<u>\$ 612</u>	<u>\$ 226</u>	<u>\$ 241</u>
Accruing Impaired Loans					
Mortgage loans on real estate:					
Residential real estate	\$ 1,012	\$ 1,012	\$ 1,012	\$ -	\$ -
Commercial real estate	6,178	6,178	6,178	-	-
Construction and land development	190	190	190	-	-
Total mortgage loans on real estate	7,380	7,380	7,380	-	-
Home equity lines of credit	-	-	-	-	-
Commercial loans	595	595	-	595	317
Consumer loans	47	47	-	47	47
Total Loans	<u>\$ 8,022</u>	<u>\$ 8,022</u>	<u>\$ 7,380</u>	<u>\$ 642</u>	<u>\$ 364</u>
Total Impaired Loans					
Mortgage loans on real estate:					
Residential real estate	\$ 1,251	\$ 1,251	\$ 1,251	\$ -	\$ -
Commercial real estate	6,777	6,777	6,551	226	241
Construction and land development	190	190	190	-	-
Total mortgage loans on real estate	8,218	8,218	7,992	226	241
Home equity lines of credit	-	-	-	-	-
Commercial loans	595	595	-	595	317
Consumer loans	47	47	-	47	47
Total Loans	<u>\$ 8,860</u>	<u>\$ 8,860</u>	<u>\$ 7,992</u>	<u>\$ 868</u>	<u>\$ 605</u>

The following table presents the average recorded investment in impaired loans and the interest income recognized on impaired loans in the nine months ended September 30, 2023 and 2022 by loan category (amounts in thousands).

	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	Average Recorded Investment	Ending Recorded Investment	Interest Income	Average Recorded Investment	Ending Recorded Investment	Interest Income
Mortgage loans on real estate:						
Residential real estate	\$ 1,540	\$ 1,403	\$ 47	\$ 1,256	\$ 1,320	\$ 36
Commercial real estate	6,033	3,712	352	5,382	4,564	381
Construction and land development	133	-	10	270	203	11
Total mortgage loans on real estate	7,706	5,115	409	6,908	6,087	428
Home equity lines of credit	182	527	-	153	104	-
Commercial loans	441	26	2	228	40	9
Consumer loans	41	37	2	81	50	4
Total Loans	\$ 8,370	\$ 5,705	\$ 413	\$ 7,370	\$ 6,281	\$ 441

The following tables present the performance status of loans as of September 30, 2023 and December 31, 2022, by class of loans (amounts in thousands).

As of September 30, 2023	Performing	Nonperforming	Total
Mortgage loans on real estate:			
Residential real estate	\$ 756,926	\$ 1,200	\$ 758,126
Commercial real estate	604,843	2,938	607,781
Construction and land development	275,740	7	275,747
Total mortgage loans on real estate	1,637,509	4,145	1,641,654
Home equity lines of credit	83,856	549	84,405
Commercial loans	347,244	24	347,268
Consumer loans	56,977	52	57,029
Total Loans	\$ 2,125,586	\$ 4,770	\$ 2,130,356

As of December 31, 2022	Performing	Nonperforming	Total
Mortgage loans on real estate:			
Residential real estate	\$ 595,792	\$ 769	\$ 596,561
Commercial real estate	550,858	599	551,457
Construction and land development	256,481	9	256,490
Total mortgage loans on real estate	1,403,131	1,377	1,404,508
Home equity lines of credit	64,166	49	64,215
Commercial loans	290,897	66	290,963
Consumer loans	49,590	2	49,592
Total Loans	\$ 1,807,784	\$ 1,494	\$ 1,809,278

The following tables present the aging of loans and non-accrual loans as of September 30, 2023 and December 31, 2022, by class of loans (amounts in thousands).

As of September 30, 2023	Accruing Loans				Total Loans	Nonaccrual With No ACL
	Current	30-89 Days Past Due	90+ Days Past Due	Nonaccrual Loans		
Mortgage loans on real estate:						
Residential real estate	\$ 754,202	\$ 2,724	\$ -	\$ 1,200	\$ 758,126	\$ 1,200
Commercial real estate	604,528	315	-	2,938	607,781	1,569
Construction and land development	275,629	111	-	7	275,747	7
Total mortgage loans on real estate	1,634,359	3,150	-	4,145	1,641,654	2,776
Home equity lines of credit	83,543	313	-	549	84,405	549
Commercial loans	346,791	453	-	24	347,268	24
Consumer loans	56,625	352	-	52	57,029	52
Total Loans	<u>\$2,121,318</u>	<u>\$ 4,268</u>	<u>\$ -</u>	<u>\$ 4,770</u>	<u>\$2,130,356</u>	<u>\$ 3,401</u>

As of December 31, 2022	Accruing Loans				Total Loans	Nonaccrual With No ACL
	Current	30-89 Days Past Due	90+ Days Past Due	Nonaccrual Loans		
Mortgage loans on real estate:						
Residential real estate	\$ 594,055	\$ 1,737	\$ 72	\$ 697	\$ 596,561	\$ 454
Commercial real estate	545,354	5,504	-	599	551,457	-
Construction and land development	255,989	492	-	9	256,490	9
Total mortgage loans on real estate	1,395,398	7,733	72	1,305	1,404,508	463
Home equity lines of credit	64,016	150	-	49	64,215	26
Commercial loans	290,485	412	66	-	290,963	-
Consumer loans	49,251	339	-	2	49,592	2
Total Loans	<u>\$1,799,150</u>	<u>\$ 8,634</u>	<u>\$ 138</u>	<u>\$ 1,356</u>	<u>\$1,809,278</u>	<u>\$ 491</u>

The Bank categorizes loans in risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. The Bank uses the following definitions for its risk ratings:

Special Mention - Weakness exists that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. Collateral values generally afford adequate coverage but may not be immediately marketable.

Substandard - Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.

Doubtful - Specific weaknesses characterized as Substandard that are severe enough to make collection in full unlikely. There is no reliable secondary source of full repayment. Loans classified as doubtful will be placed on non-accrual, analyzed and fully or partially charged-off based on review of collateral and other relevant factors.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass rated loans.

The following table presents loan balances classified by credit quality indicator, loan type and based on year of origination as of September 30, 2023 (amounts in thousands).

	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
Residential real estate								
Pass	\$ 172,113	\$ 337,429	\$ 124,637	\$ 70,483	\$ 17,634	\$ 25,328	\$ 3,780	\$ 751,404
Special Mention	1,452	2,203	598	159	27	181	-	4,620
Substandard	36	447	153	336	530	600	-	2,102
Doubtful	-	-	-	-	-	-	-	-
Total residential real estate	\$ 173,601	\$ 340,079	\$ 125,388	\$ 70,978	\$ 18,191	\$ 26,109	\$ 3,780	\$ 758,126
Commercial real estate								
Pass	\$ 63,815	\$ 199,303	\$ 101,590	\$ 98,419	\$ 52,673	\$ 67,957	\$ 13,591	\$ 597,348
Special Mention	763	-	-	892	-	4,919	-	6,574
Substandard	49	765	-	180	51	2,805	9	3,859
Doubtful	-	-	-	-	-	-	-	-
Total commercial real estate	\$ 64,627	\$ 200,068	\$ 101,590	\$ 99,491	\$ 52,724	\$ 75,681	\$ 13,600	\$ 607,781
Construction and land development								
Pass	\$ 93,330	\$ 123,686	\$ 25,990	\$ 6,085	\$ 2,710	\$ 4,981	\$ 18,432	\$ 275,214
Special Mention	211	172	15	-	23	12	-	433
Substandard	-	-	91	9	-	-	-	100
Doubtful	-	-	-	-	-	-	-	-
Total construction and land development	\$ 93,541	\$ 123,858	\$ 26,096	\$ 6,094	\$ 2,733	\$ 4,993	\$ 18,432	\$ 275,747
Current-period gross charge-offs	\$ -	\$ -	\$ 196	\$ -	\$ -	\$ -	\$ -	\$ 196
Home equity lines of credit								
Pass	\$ 253	\$ 450	\$ -	\$ 628	\$ -	\$ -	\$ 82,285	\$ 83,616
Special Mention	-	-	-	-	-	-	150	150
Substandard	-	-	-	-	-	22	617	639
Doubtful	-	-	-	-	-	-	-	-
Total home equity lines of credit	\$ 253	\$ 450	\$ -	\$ 628	\$ -	\$ 22	\$ 83,052	\$ 84,405
Commercial loans								
Pass	\$ 70,927	\$ 78,914	\$ 31,935	\$ 17,607	\$ 7,389	\$ 11,412	\$ 123,325	\$ 341,509
Special Mention	69	152	55	354	88	4,101	890	5,709
Substandard	-	-	-	26	-	-	24	50
Doubtful	-	-	-	-	-	-	-	-
Total commercial loans	\$ 70,996	\$ 79,066	\$ 31,990	\$ 17,987	\$ 7,477	\$ 15,513	\$ 124,239	\$ 347,268
Current-period gross charge-offs	\$ 184	\$ 46	\$ -	\$ -	\$ -	\$ 280	\$ -	\$ 510
Consumer loans								
Pass	\$ 19,912	\$ 15,439	\$ 9,017	\$ 4,399	\$ 2,152	\$ 2,748	\$ 2,864	\$ 56,531
Special Mention	52	110	32	18	6	17	24	259
Substandard	116	43	28	5	-	36	11	239
Doubtful	-	-	-	-	-	-	-	-
Total consumer loans	\$ 20,080	\$ 15,592	\$ 9,077	\$ 4,422	\$ 2,158	\$ 2,801	\$ 2,899	\$ 57,029
Current-period gross charge-offs	\$ -	\$ 84	\$ -	\$ 14	\$ -	\$ -	\$ -	\$ 98
Total Loans								
Pass	\$ 420,350	\$ 755,221	\$ 293,169	\$ 197,621	\$ 82,558	\$ 112,426	\$ 244,277	\$ 2,105,622
Special Mention	2,547	2,637	700	1,423	144	9,230	1,064	17,745
Substandard	201	1,255	272	556	581	3,463	661	6,989
Doubtful	-	-	-	-	-	-	-	-
Total loans	\$ 423,098	\$ 759,113	\$ 294,141	\$ 199,600	\$ 83,283	\$ 125,119	\$ 246,002	\$ 2,130,356
Current-period gross charge-offs	\$ 184	\$ 130	\$ 196	\$ 14	\$ -	\$ 280	\$ -	\$ 804

As of December 31, 2022, the risk category of loans by class of loans is as follows (amounts in thousands):

As of December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential real estate	\$ 591,882	\$ 2,648	\$ 2,031	\$ -	\$ 596,561
Commercial real estate	539,777	4,706	6,974	-	551,457
Construction and land development	256,200	77	213	-	256,490
Total mortgage loans on real estate	1,387,859	7,431	9,218	-	1,404,508
Home equity lines of credit	63,861	212	142	-	64,215
Commercial loans	283,359	7,008	596	-	290,963
Consumer loans	49,206	238	148	-	49,592
Total Loans	<u>\$ 1,784,285</u>	<u>\$ 14,889</u>	<u>\$ 10,104</u>	<u>\$ -</u>	<u>\$ 1,809,278</u>

Note 6 – Fair Value Measurements and Disclosures

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans, foreclosed assets, and repossessed assets. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following is a description of valuation methodologies used for assets and liabilities recorded or disclosed at fair value:

Cash and cash equivalents – For disclosure purposes, for cash, due from banks, interest-bearing deposits and federal funds sold, the carrying amount is a reasonable estimate of fair value.

Certificates of deposit in banks – For disclosure purposes, the carrying amount of certificates of deposit is a reasonable estimate of fair value.

Investment Securities – Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange and securities that are traded by dealers or brokers in active over-the-counter market funds. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and municipal bonds. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans and mortgage loans held for sale – The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for credit losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. When a loan is identified as individually impaired, management measures impairment using one of three methods. These methods include collateral value, market value of similar debt, and discounted cash flows. Collateral dependent impaired loans are measured for impairment based on collateral value. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. As of September 30, 2023 and December 31, 2022, impaired loans were evaluated based on the fair value of the collateral. Impaired loans for which an allowance is established based on the fair value of collateral, or loans that were charged down according to the fair value of collateral, require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price, the Company records the impaired loan as nonrecurring Level 2. When the fair value is based on an appraised value, the Company records the impaired loan as nonrecurring Level 3.

For disclosure purposes, the fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value. Mortgage loans held-for-sale are carried at cost, which is a reasonable estimate of fair value.

Accrued interest receivable – For disclosure purposes, the fair value of the accrued interest on investments and loans is the carrying value.

Bank owned life insurance – For disclosure purposes, the fair value of the cash surrender value of bank owned life insurance policies is equivalent to the carrying value.

Foreclosed assets – Other real estate properties and miscellaneous repossessed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management’s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Company records the foreclosed asset as nonrecurring Level 2. When the fair value is based on an appraised value or management’s estimate of value, the Company records the foreclosed asset as nonrecurring Level 3.

Restricted equity securities – It is not practical to determine the fair value of restricted equity securities due to restrictions placed on transferability.

Deposits – For disclosure purposes, the fair value for demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities.

Securities sold under agreements to repurchase – For disclosure purposes, the carrying amounts of securities sold under agreements to repurchase approximate their fair values.

Federal Home Loan Bank advances – For disclosure purposes, the fair value of Federal Home Loan Bank advances is estimated using discounted cash flow analyses using interest rates offered for borrowings with similar maturities.

Federal Reserve Bank Discount Window Borrowings – For disclosure purposes, the fair value of the Federal Reserve Bank discount window borrowings is based on the quoted value for similar remaining maturities provided by the Federal Reserve Bank.

Line of credit - For disclosure purposes, the carrying amount of the line of credit approximates fair value.

Subordinated debentures – For disclosure purposes, the fair value is estimated using a discounted cash flow calculation that applies interest rates currently being offered for similar subordinated debenture offerings.

Accrued interest payable – For disclosure purposes, the fair value of the accrued interest payable on deposits is the carrying value.

Commitments to extend credit and standby letters of credit – Because commitments to extend credit and standby letters of credit are generally short-term and made using variable rates, the carrying value and estimated fair value associated with these instruments are immaterial.

Assets and liabilities measured at fair value on a recurring basis – The only assets and liabilities measured at fair value on a recurring basis are our securities available-for-sale. Information related to the Company’s assets and liabilities measured at fair value on a recurring basis at September 30, 2023 and December 31, 2022 is as follows: (amounts in thousands)

September 30, 2023	Fair Value Measurements At Reporting Date Using:			
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale:				
Residential mortgage -backed	\$ 348,969	\$ -	\$ 348,969	\$ -
U.S. treasury securities	116,681	-	116,681	-
U.S. government sponsored enterprises	62,469	-	62,469	-
State, county, and municipal	59,415	-	59,415	-
Corporate debt obligations	15,091	-	9,803	5,288
Totals	\$ 602,625	\$ -	\$ 597,337	\$ 5,288

December 31, 2022	Fair Value Measurements At Reporting Date Using:			
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale:				
Residential mortgage -backed	\$ 390,037	\$ -	\$ 390,037	\$ -
U.S. treasury securities	117,629	-	117,629	-
U.S. government sponsored enterprises	66,362	-	66,362	-
State, county, and municipal	75,863	-	75,863	-
Corporate debt obligations	15,996	-	10,375	5,621
Totals	\$ 665,887	\$ -	\$ 660,266	\$ 5,621

The Company's policy is to recognize transfers in and transfers out of levels 1, 2, and 3 as of the end of a reporting period. There were no transfers between levels from December 31, 2022 to September 30, 2023 (amounts in thousands):

	Significant Unobservable Inputs (Level 3)	
	September 30, 2023	December 31, 2022
Fair value, beginning of period	\$ 5,621	\$ -
Transfers into Level 3	-	5,621
Changes in unrealized gains/losses included in other comprehensive loss for assets and liabilities still held at period-end	(333)	-
Fair value, end of period	<u>\$ 5,288</u>	<u>\$ 5,621</u>

Assets measured at fair value on a nonrecurring basis – The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. GAAP. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of September 30, 2023 and December 31, 2022 (amounts in thousands):

	Fair Value Measurements At Reporting Date Using:			
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2023				
Individually evaluated loans	\$ 5,306	\$ -	\$ -	\$ 5,306
Foreclosed assets	516	-	-	516
Totals	<u>\$ 5,822</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,822</u>
December 31, 2022				
Individually evaluated loans	\$ 8,255	\$ -	\$ -	\$ 8,255
Foreclosed assets	609	-	-	609
Totals	<u>\$ 8,864</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,864</u>

The Company has estimated the fair values of these assets using Level 3 inputs, specifically the appraised value of the collateral. Impaired loan balances represent those collateral dependent impaired loans where management has estimated the credit loss by comparing the loan's carrying value against the expected realizable fair value of the impaired loan for the amount of the credit loss. For Level 3 assets measured at fair value on a non-recurring basis as of September 30, 2023 and December 31, 2022 for the valuation technique, we used appraisals. For the significant unobservable input, we used appraisal discounts, and weighted average input of 15-20% was used for the period ended September 30, 2023 and December 31, 2022.

The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments as of September 30, 2023 and December 31, 2022 are as follows (amounts in thousands):

September 30, 2023	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	\$ 145,100	\$ 145,100	\$ -	\$ -
Certificates of deposit in banks	3,458	-	3,458	-
Securities held-to-maturity	127,924	-	97,663	-
Securities available-for-sale	602,625	-	597,337	5,288
Loans held-for-sale	6,923	-	6,923	-
Loans receivable, net	2,094,611	-	2,010,124	5,306
Accrued interest receivable	12,014	-	12,014	-
Bank owned life insurance	47,352	-	47,352	-
Restricted equity securities	9,796	-	-	9,796
Financial liabilities:				
Deposits	2,776,750	-	2,573,780	-
Securities sold under agreements to repurchase	19,815	-	19,815	-
Federal Home Loan Bank advances	155,000	-	147,094	-
Federal Reserve Bank discount window borrowings	-	-	-	-
Subordinated debentures	39,474	-	30,706	-
Accrued interest payable	1,582	-	1,582	-
December 31, 2022				
December 31, 2022	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	\$ 74,826	\$ 74,826	\$ -	\$ -
Certificates of deposit in banks	4,165	-	4,165	-
Securities held-to-maturity	131,581	-	105,277	-
Securities available-for-sale	665,887	-	660,266	5,621
Loans held-for-sale	3,413	-	3,413	-
Loans receivable, net	1,778,817	-	1,708,410	8,255
Accrued interest receivable	10,083	-	10,083	-
Bank owned life insurance	46,395	-	46,395	-
Restricted equity securities	5,685	-	-	5,685
Financial liabilities:				
Deposits	2,514,199	-	2,307,026	-
Securities sold under agreements to repurchase	8,181	-	8,181	-
Federal Home Loan Bank advances	95,000	-	95,091	-
Federal Reserve Bank discount window borrowings	25,000	-	25,000	-
Subordinated debentures	39,419	-	31,039	-
Accrued interest payable	1,296	-	1,296	-

The estimated fair values of the standby letters of credit and loan commitments on which the committed interest rate is less than the current market rate are insignificant as of September 30, 2023 and December 31, 2022.

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed-rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed-rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling-rate environment. Management monitors rates and maturities of assets and liabilities, and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Note 7 – Recently Adopted Accounting Pronouncements

In March 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. The amendments eliminate the accounting guidance for TDR recognition in Subtopic 310-40, Receivables – Trouble Debt Restructurings by Creditors by entities that have adopted ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. For public business entities, the amendments require disclosure of current-period gross write-offs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. Gross write-off information must be included in the vintage disclosures required for public business entities in accordance with paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. The Company adopted ASU 2022-02 effective January 1, 2023 on a prospective basis. Adoption of ASU 2022-02 did not have a material impact on the Company’s consolidated financial statements.

On January 1, 2023, the Company adopted ASU 2016-13, “*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*”, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASU 2016-13 and all subsequent amendments thereto effective January 1, 2023, using the modified retrospective method for all financial assets measured at amortized cost and off balance sheet credit exposures. Amounts for periods beginning on or after January 1, 2023, are presented under ASU 2016-13 and all prior period information is presented in accordance with previously applicable GAAP. At January 1, 2023, the Company recognized a cumulative adjustment to retained earnings of \$24 thousand, net of tax, attributable to an increase in the allowance for credit losses of \$80 thousand and an increase in deferred tax assets of \$8 thousand. Included in the \$80 thousand increase in the allowance for credit losses is \$48 thousand that was recognized on purchased with credit deterioration (PCD) loans previously classified as purchased credit impaired (PCI) with a corresponding adjustment to the gross carrying amount of the loans. The Company adopted ASU 2016-13 using the prospective transition approach for PCD loans, which did not require re-evaluation of whether loans previously classified as PCI loans met the criteria of PCD assets at the date of adoption. The remaining noncredit discount will be accreted into interest income over the life of the individual loans beginning January 1, 2023.

Note 8 – Recently Issued Accounting Pronouncements

In March 2023, the FASB issued ASU 2023-02, Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method. These amendments allow entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. The ASU responds to stakeholder feedback that the proportional amortization method provides investors and other allocators of capital with a better understanding of the returns from investments that are made primarily for the purpose of receiving income tax credits and other income tax benefits. ASU 2023-02 is effective for public entities for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for all entities in any interim period. The Company is assessing its tax credit investments for whether they qualify for proportional amortization treatment and plans to adopt the amendments soon after. The Company does not currently believe the amendments will have a material impact on its consolidated financial statements.

Note 9 – Defined Contribution Plan

The Company provides a 401(k) employee stock ownership plan (ESOP), which covers substantially all of the Company's employees who are eligible, as to age and length of service. A participant may elect to make contributions up to \$22.5 thousand and \$20.5 thousand of the participant's annual compensation in 2023 and 2022, respectively. The Company makes contributions up to 3% of each participant's annual compensation and the Company matches 50% of the next 2% contributed by the employee. Contributions to the plan by the Company were approximately \$655 thousand and \$561 thousand for the nine months ended September 30, 2023 and 2022, respectively. Outstanding shares of the Company's common stock allocated to participants at September 30, 2023 and December 31, 2022 totaled 174,202 and 154,997 shares respectively, and there were no unallocated shares. These shares are treated as outstanding for purposes of calculating earnings per share and dividends on these shares are included in the Consolidated Statements of Stockholders' Equity.

The Company's ESOP includes a put option for shares of the Company's common stock distributed from the ESOP. Shares are distributed from the ESOP primarily to separate vested participants and certain eligible participants who elect to diversify their account balances. Since the Company's common stock is not currently traded on an established securities market, if the owners of distributed shares desire to sell their shares, the Company is required to purchase the shares at fair value during two put option periods following the distribution of the shares from the ESOP. The first put option period is within sixty days following the distribution of the shares from the ESOP. The second put option period begins on the first day of the fifth month of the plan year for a sixty day period. The fair value of distributed shares subject to the put option totaled \$0 as of September 30, 2023 and December 31, 2022. The cost of the ESOP shares totaled \$4.73 million and \$4.16 million as of September 30, 2023 and December 31, 2022, respectively. Due to the Company's obligation under the put option, the distributed shares and ESOP shares are classified as temporary equity in the mezzanine section of the consolidated statements of financial condition and totaled \$4.73 million and \$4.16 million as of September 30, 2023 and December 31, 2022, respectively. The fair value of the ESOP shares totaled \$6.27 million and \$5.93 million as of September 30, 2023 and December 31, 2022, respectively.

Note 10 – Loans Held for Sale

The Company has entered into agreements with secondary market investors to deliver loans on a “best efforts delivery” basis. When a rate is committed to a borrower, it is based on the best price that day and locked with the investor for the customer for a thirty day period. In the event the loan is not delivered to the investor, the Company has no risk or exposure with the investor. The fair values of the Company’s agreements with investors and rate lock commitments to customers as of September 30, 2023 and December 31, 2022, respectively, were not material.

Note 11 – Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On January 1, 2019, the Company adopted ASU No. 2016-02 “Leases” (Topic 842) and all subsequent ASUs that modified Topic 842. For the Company, Topic 842 primarily affected the accounting treatment for operating lease agreements in which the Company is the lessee.

Lessee Accounting

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches and office space with terms extending through 2036. Substantially all of our leases are classified as operating leases, and therefore, were previously not recognized on the Company’s consolidated statements of condition. With the adoption of Topic 842, operating lease agreements are required to be recognized on the consolidated statements of condition as a right-of-use (ROU) asset and a corresponding lease liability. The Company elected to use the optional transition method, which allowed for a modified retrospective method of adoption with an immaterial cumulative effect adjustment to retained earnings without restating comparable periods. The Company also elected the relief package of practical expedients for which there is no requirement to reassess existence of leases, their classification, and initial direct costs. The Company also applied the exemption for short-term leases with a term of less than one year and therefore we do not recognize a lease liability or right-of-use asset on the balance sheet but instead recognize lease payments as an expense over the lease term as appropriate.

The following table represents the consolidated statements of condition classification of the Company’s ROU assets and lease liabilities. The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the consolidated statements of condition.

Lease Right-of-Use Assets	Classification on Consolidated Statement of Condition	September 30, 2023	December 31, 2022
Operating lease right-of-use assets	Other Assets	\$ 3,357	\$ 3,582

Lease Liabilities	Classification on Consolidated Statement of Condition	September 30, 2023	December 31, 2022
Operating lease liabilities	Accrued interest payable and other liabilities	\$ 3,505	\$ 3,716

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

	September 30, 2023	December 31, 2022
Weighted-average remaining lease term for operating leases	8.61 Years	9.62 Years
Weighted-average discount rate for operating leases	6.00%	6.00%

Future minimum payments for operating leases with initial or remaining terms of one year or more as of September 30, 2023 are as follows:

	Operating Leases
October 1, 2023 - September 30, 2024	\$ 794
October 1, 2024 - September 30, 2025	698
October 1, 2025 - September 30, 2026	520
October 1, 2026 - September 30, 2027	419
October 1, 2027 - September 30, 2028	385
Afterward	1,790
Total future minimum lease payments	4,606
Amounts representing interest	(1,101)
Present value of net future minimum lease payments	<u>\$ 3,505</u>

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and related notes thereto for the year ended December 31, 2022, which are contained in the Annual Report on Form 10-K for the year ended December 31, 2022. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from our expectations. Factors that could cause such differences are discussed in our 2022 Annual Report on Form 10-K under “Part I, Item 1A - Risk Factors.” We assume no obligation to update any of these forward-looking statements.

The following discussion pertains to our historical results on a consolidated basis. However, because we conduct all of our material business operations through our subsidiaries, the discussion and analysis relates to activities primarily conducted at the subsidiary level.

All dollar amounts in the tables in this section are in thousands of dollars, except per share data, yields, percentages and rates or when specifically identified. As used in this Item, the words “we,” “us,” “our,” the “Company,” “RFC,” “River” and similar terms refer to River Financial Corporation and its consolidated affiliate, unless the context indicates otherwise.

Current Developments regarding COVID-19

As a result of the COVID-19 pandemic and its continuing concerns as well as the potential adverse effects it may have on our customers, including our loan and depositor relationships, we continue to assess how such developments could affect our business and operations. We have taken the following steps to operate in an environment that is safe for both our employees and customers (and the public in general) and have implemented guidelines and programs to assist our customers and help ensure the safe and sound operation of our Bank.

Daily Operations

1. We have established social distancing policies in keeping with federal and state of Alabama guidelines to help ensure the health of our employees. To the extent possible, we have encouraged our employees to work remotely, and we believe such steps have been welcomed by, and helpful to, our employees.

2. Currently, our lobbies at our main office and branches and public areas are open to walk-in business and other in-person visits by customers. Among other things, customers may have in-person meetings at our facilities, consistent with social distancing policies, including customers who may wish to have access to their safe deposit boxes. Masks are available for both employees and customers as needed.

3. Our drive-through facilities at all our locations remain open for customer service, and we believe that the drive-through option for customers has worked well. All of our ATM locations are operative.

We expect to continue with the foregoing procedures until both the federal and state guidance provides comfort that a return to a more normal operation environment is advisable and we, too, are comfortable with such return.

Participation in Government Programs

We are participating in several government programs designed to assist customers, to bolster the economy and to provide protection for the Bank.

Paycheck Protection Program

The Bank participated as a lender in the Small Business Administration's (SBA) Paycheck Protection Program (PPP) as established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The PPP was established under the CARES Act to provide unsecured low interest rate loans to small businesses that have been impacted by the COVID-19 pandemic. The PPP loans are 100% guaranteed by the SBA. The loans have a fixed interest rate of 1% and payments of interest and principal are deferred until the earlier of the date the SBA remits the forgiveness amount to the lender, the forgiveness application is denied, or if no forgiveness application is filed, ten months from the end of the covered period. If originated before June 5, 2020, loans matured two years from origination, and if origination occurred on or after June 5, 2020, loans mature five years from origination. PPP loans are forgiven by the SBA (which makes forgiveness payments directly to the lender) to the extent the borrower uses the proceeds of the loan for certain purposes (primarily to fund payroll costs) during a certain time period following origination and maintains certain employee and compensation levels. Lenders receive processing fees from the SBA for originating the PPP loans which were based on a percentage of the loan amount. On December 27, 2020, legislation was enacted that renewed the PPP and allocated additional appropriations for both new first-time PPP loans under the existing PPP and second-draw PPP loans for certain eligible borrowers that had previously received a PPP loan. As of September 30, 2023, the Bank has approximately 15 PPP loans in the aggregate amount of approximately \$329 thousand outstanding. At December 31, 2022, the Bank had approximately 27 PPP loans in the aggregate amount of approximately \$781 thousand outstanding.

Our Business

We are a bank holding company headquartered in Prattville, Alabama. We engage in the business of banking through our wholly-owned banking subsidiary, River Bank & Trust, which we may refer to as the "Bank" or "River Bank." Through the Bank, we provide a broad array of financial services to businesses, business owners, professionals, and consumers. As of September 30, 2023, we operated twenty-three full-service banking offices in Alabama in the cities of Montgomery, Prattville, Millbrook, Wetumpka, Auburn, Opelika, Gadsden, Alexander City, Daphne, Clanton, Dothan, Enterprise, Mobile, Decatur, Huntsville, Saraland, and Birmingham, Alabama.

Segments

While our chief decision makers monitor the revenue streams of the various banking products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment. Because the overall banking operations comprise substantially all of the consolidated operations, no separate segment disclosures are presented in the accompanying consolidated financial statements.

Overview of Third Quarter 2023 Results

Net income was \$5.9 million in the quarter ended September 30, 2023, compared with \$6.9 million in the quarter ended September 30, 2022. Several significant measures from the 2023 third quarter include:

- Net interest margin (taxable equivalent) of 2.66%, compared with 3.43% for the third quarter of 2022.
- Net interest income decrease of \$1.2 million for the quarter ended September 30, 2023, representing a 5.63% rate of decrease over the quarter ended September 30, 2022.
- Annualized return on average earning assets for the quarter ended September 30, 2023 of 0.78% compared with 1.11% for the quarter ended September 30, 2022.
- Annualized return on average equity for the quarter ended September 30, 2023 of 15.10% compared with 19.23% for the quarter ended September 30, 2022.
- Loan increase of \$75.2 million during the quarter ended September 30, 2023, representing a 14.69% annualized growth rate.
- Securities decrease of \$30.2 million during the quarter ended September 30, 2023, representing a 15.87% annualized decrease for the quarter.
- Deposit increase of \$94.8 million during the quarter ended September 30, 2023, representing a 14.15% annualized growth rate.
- Stockholders' equity increase of \$26.4 million during the quarter ended September 30, 2023, representing a 73.85% annualized increase.
- Book value per share of \$22.67 at September 30, 2023, compared with \$20.76 per share at December 31, 2022.
- Tangible book value per share of \$18.83 at September 30, 2023, compared with \$16.27 at December 31, 2022.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in the notes to the financial statements for the year ended December 31, 2022, which are contained in our Annual Report filed on Form 10-K. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variation and may significantly affect our reported results and financial position for the current period or future periods. The use of estimates, assumptions, and judgment is necessary when financial assets and liabilities are required to be recorded at or adjusted to reflect fair value. Assets carried at fair value inherently result in more financial statement volatility. Fair values and information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices or are provided by other independent third-party sources, when available. When such information is not available, management estimates valuation adjustments. Changes in underlying factors, assumptions or estimates in any of these areas could have a material impact on our future financial condition and results of operations.

The following briefly describes the more complex policies involving a significant amount of judgments about valuation and the application of complex accounting standards and interpretations.

Allowance for Credit Losses

The allowance for credit losses has been determined in accordance with GAAP. The Company is responsible for the timely and periodic determination of the amount of the allowance for credit losses. Management believes that the allowance for credit losses is adequate to cover expected credit losses over the life of the loan portfolio. Although management evaluates available information to determine the adequacy of the allowance for credit losses, the level of allowance is an estimate which is subject to significant judgment and short-term change. Because of uncertainties associated with local and national economic forecasts, the operating and regulatory environment, collateral values and future cash flows from the loan portfolio, it is possible that a material change could occur in the allowance for credit losses in the near term. The evaluation of the adequacy of loan collateral is often based upon estimates and appraisals. Because of changing economic conditions, the valuations determined from such estimates and appraisals may also change.

Accordingly, the Company may ultimately incur losses that vary from management's current estimates. Adjustments to the allowance for credit losses will be reported in the period in which such adjustments become known and can be reasonably estimated. All loan losses are charged to the allowance for credit losses when the loss actually occurs or when the collectability of the principal is unlikely. Recoveries are credited to the allowance at the time of recovery. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit losses. As a result of such examinations, the Company may need to recognize additions to the allowance for credit losses based on the regulators' judgments.

In estimating the allowance for credit losses, the Company relies on models and economic forecasts developed by external parties as the primary driver of the allowance for credit losses. These models and forecasts are based on nationwide sets of data. Economic forecasts can change significantly over an economic cycle and have a significant level of uncertainty associated with them. The performance of the models is dependent on the variables used in the models being reasonable proxies for the loan portfolio's performance. However, these variables may not capture all sources of risk within the portfolio. As a result, the Company reviews the results and makes qualitative adjustments to the models to capture limitations of the models as necessary. Such qualitative factors may include adjustments to better capture the imprecision associated with the economic forecasts, and the ability of the models to capture emerging risks within the portfolio that may not be represented in the data. These judgments are evaluated through Company's review process, and revised on a quarterly basis to account for changes in facts and circumstances. It is difficult to estimate how potential changes in any one of the quantitative inputs or qualitative factors might affect the overall allowance for credit losses and the Company's current assessments may not reflect the potential future impact of changes to those inputs or factors.

Investment Securities Impairment

Effective January 1, 2023, the Company estimates and recognizes an allowance for credit losses for held-to-maturity (HTM) debt securities pursuant to ASU No. 2016-13. The Company has a zero loss expectation for its HTM securities portfolio, except for U.S. State and Municipal securities, and therefore it is not required to estimate an allowance for credit losses related to these securities. For HTM securities that do not have a zero loss expectation, the allowance for credit losses is based on the security's amortized cost, excluding interest receivable, and represents the portion of the amortized cost that the Company does not expect to collect over the life of the security. The allowance for credit losses is determined using average industry credit ratings and historical loss experience, and is initially recognized upon acquisition of the securities, and subsequently remeasured on a recurring basis. The Company evaluates available for sale (AFS) debt securities that experienced a decline in fair value below amortized cost for credit impairment. In performing an assessment of whether any decline in fair value is due to a credit loss, the Company considers the extent to which the fair value is less than the amortized cost, changes in credit ratings, any adverse economic conditions, as well as all relevant information at the individual security level, such as credit deterioration of the issuer, explicit or implicit guarantees by the federal government or collateral underlying the security. If it is determined that the decline in fair value was due to credit losses, an allowance for credit losses is recorded, limited to the amount the fair value is less than the amortized cost basis. The non-credit related decrease in the fair value, such as a decline due to changes in market interest rates, is recorded in other comprehensive (loss) income, net of tax. The Company recognizes a credit impairment if the Company has the intent to sell the security, or it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost. Prior to the adoption of ASU No. 2016-13 Management evaluated AFS and HTM debt securities for other-than-temporary-impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

Income Taxes

Deferred income tax assets and liabilities are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events recognized in the financial statements. A valuation allowance may be established to the extent necessary to reduce the deferred tax asset to a level at which it is "more likely than not" that the tax assets or benefits will be realized. Realization of tax benefits depends on having sufficient taxable income, available tax loss carrybacks or credits, the reversing of taxable temporary differences and/or tax planning strategies within the reversal period, and whether current tax law allows for the realization of recorded tax benefits.

Business Combinations

Assets purchased and liabilities assumed in a business combination are recorded at their fair value. The fair value of a loan portfolio acquired in a business combination requires greater levels of management estimates and judgment than the remainder of purchased assets or assumed liabilities. On the date of acquisition, when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments, the difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. We must estimate expected cash flows at each reporting date. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges and adjusted accretable yield which will have a positive impact on interest income. In addition, purchased loans without evidence of credit deterioration are also handled under this method.

Comparison of the Results of Operations for the nine months ended September 30, 2023 and 2022

The following is a narrative discussion and analysis of significant changes in our results of operations for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022.

Net Income

During the three months ended September 30, 2023, our net income was \$5.9 million, compared to \$6.9 million for the three months ended September 30, 2022, a decrease of \$985.0 thousand, or 14.34%. The primary reason for the decrease in net income for the third quarter of 2023 as compared to the third quarter of 2022 was an increase in noninterest income offset by a larger increase in noninterest expense. Total noninterest income for the third quarter of 2023 was \$3.9 million compared to \$2.5 million for the quarter ended September 30, 2022. The most significant increase in noninterest income in the third quarter of 2023 was no loss on sale of investments compared to a \$726 thousand loss on sale of investments during the third quarter of 2022. Total noninterest expense in the third quarter of 2023 increased \$1.6 million, or 11.58%, from the third quarter of 2022. The most significant increase was an increase of \$927.0 thousand in salaries and employee benefits. During the three months ended September 30, 2023, net interest income was \$20.0 million compared to \$21.2 million for the three months ended September 30, 2022, a decrease of \$1.2 million, or 5.63%. This decrease is a result of higher costs of deposit funding. The provision for credit losses also decreased approximately \$19.0 thousand from the third quarter of 2022 to the third quarter of 2023.

During the nine months ended September 30, 2023, our net income was \$18.6 million, compared to \$22.1 million for the nine months ended September 30, 2022, a decrease of \$3.5 million, or 15.84%. The primary reason for the decrease in net income for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022 was an increase in noninterest expense that outpaced an increase in noninterest income. Total noninterest expense in the first nine months of 2023 increased \$8.3 million, or 22.52%, from the first nine months of 2022. The most significant increase was an increase of \$4.5 million in salaries and employee benefits. Total noninterest income for the first nine months of 2023 was \$15.2 million compared to \$9.3 million in the first nine months of 2022. This increase in noninterest income was primarily the result of a \$3.7 million Community Development Financial Institution award recognized in 2023. During this period in 2023, net interest income was \$58.1 million compared to \$58.7 million for the same period in 2022, a decrease of \$546.0 thousand, or 0.93%. This decrease is a result of higher costs of deposit funding. The provision for loan losses increased approximately \$1.7 million from the third quarter of 2022 to the third quarter of 2023.

Net Interest Income and Net Interest Margin Analysis

The largest component of our net income is net interest income – the difference between the income earned on interest earning assets and the interest paid on deposits and borrowed funds used to support assets. Net interest income divided by average interest earning assets represents our net interest margin. The major factors that affect net interest income and net interest margin are changes in volumes, the yield on interest earning assets and the cost of interest bearing liabilities. Our net interest margin can also be affected by economic conditions, the competitive environment, loan demand, and deposit flow. Management’s ability to respond to changes in these factors by using effective asset-liability management techniques is critical to maintaining the stability of the net interest margin and the primary source of earnings. This is discussed in greater detail under the heading “Interest Sensitivity and Market Risk”.

Comparison of net interest income for the three months ended September 30, 2023 and 2022

The following table shows, for the three months ended September 30, 2023 and 2022, the average balances of each principal category of our earning assets and interest bearing liabilities and the average taxable equivalent yields on assets and average costs of liabilities. These yields and costs are calculated by dividing the income or expense by the average daily balance of the associated assets or liabilities (amounts in thousands).

	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
Interest earning assets						
Loans	\$ 2,084,083	\$ 29,884	5.69%	\$ 1,539,788	\$ 18,948	4.88%
Mortgage loans held for sale	10,124	102	4.01%	10,591	92	3.44%
Investment securities:						
Taxable securities	784,550	3,498	1.77%	827,568	3,481	1.67%
Tax-exempt securities	67,744	480	2.81%	78,861	562	2.83%
Interest bearing balances in other banks	14,180	172	4.82%	21,671	114	2.10%
Federal funds sold	57,358	793	5.48%	-	-	0.00%
Total interest earning assets	\$ 3,018,039	\$ 34,929	4.59%	\$ 2,478,479	\$ 23,197	3.71%
Interest bearing liabilities						
Interest bearing transaction accounts	\$ 670,072	\$ 2,519	1.49%	\$ 536,614	\$ 177	0.13%
Savings and money market accounts	869,058	5,123	2.34%	851,386	525	0.24%
Time deposits	517,990	4,596	3.52%	288,240	608	0.84%
Short-term borrowings	20,378	173	3.60%	9,846	14	0.59%
Federal Home Loan Bank advances	155,000	1,658	4.21%	6,304	19	1.17%
Subordinated debentures	40,000	418	4.14%	40,000	419	4.16%
Line of credit	8,609	185	8.52%	-	-	0.00%
Total interest bearing liabilities	\$ 2,281,107	\$ 14,672	2.55%	\$ 1,732,390	\$ 1,762	0.40%
Noninterest-bearing funding of earning assets	736,932	-	0.00%	746,089	-	0.00%
Total cost of funding earning assets	\$ 3,018,039	\$ 14,672	1.93%	\$ 2,478,479	\$ 1,762	0.28%
Net interest rate spread			2.04%			3.31%
Net interest income/margin (taxable equivalent)		\$ 20,257	2.66%		\$ 21,435	3.43%
Tax equivalent adjustment		(214)			(196)	
Net interest income/margin		\$ 20,043	2.63%		\$ 21,239	3.40%

The following table reflects, for the three months ended September 30, 2023 and 2022, the changes in our net interest income due to variances in the volume of interest earning assets and interest bearing liabilities and variances in the associated rates earned or paid on these assets and liabilities (amounts in thousands).

	Three Months Ended September 30, 2023 vs. Three Months Ended September 30, 2022		
	Volume	Variance due to Yield/Rate	Total
<u>Interest earning assets</u>			
Loans	\$ 6,681	\$ 4,255	\$ 10,936
Mortgage loans held for sale	(5)	15	10
Investment securities:			
Taxable securities	(181)	198	17
Tax-exempt securities	(79)	(3)	(82)
Interest bearing balances in other banks	(39)	97	58
Federal funds sold	(10)	803	793
Total interest earning assets	\$ 6,367	\$ 5,365	\$ 11,732
<u>Interest bearing liabilities</u>			
Interest bearing transaction accounts	\$ 44	\$ 2,298	\$ 2,342
Savings and money market accounts	11	4,587	4,598
Time deposits	483	3,505	3,988
Short-term borrowings	5	154	159
Federal Home Loan Bank advances	450	1,189	1,639
Subordinated debentures	1	(2)	(1)
Line of credit	-	185	185
Total interest bearing liabilities	\$ 994	\$ 11,916	\$ 12,910
<u>Net interest income</u>			
Net interest income (taxable equivalent)	\$ 5,373	\$ (6,551)	\$ (1,178)
Taxable equivalent adjustment	-	(18)	(18)
Net interest income	\$ 5,373	\$ (6,569)	\$ (1,196)

Total interest income for the three months ended September 30, 2023 was \$34.7 million and total interest expense was \$14.7 million, resulting in net interest income of \$20.0 million for the period. For the same period of 2022, total interest income was \$23.0 million and total interest expense was \$1.8 million, resulting in net interest income of \$21.2 million for the period. This represents a 5.63% decrease in net interest income when comparing the same period from 2023 and 2022. When comparing the variances related to interest income for the three months ended September 30, 2023 and 2022, the increase was primarily attributed to increases in average volumes in loans. The volume related increase in interest income for the three months ended September 30, 2023 was accompanied by an increase in the yield on loans and investment securities. When comparing variances related to interest expense for the three months ended September 30, 2023 and 2022, the increase primarily resulted from an increase in deposit and borrowing rates in 2023.

Comparison of net interest income for the nine months ended September 30, 2023 and 2022

The following table shows, for the nine months ended September 30, 2023 and 2022, the average balances of each principal category of our earning assets and interest bearing liabilities and the average taxable equivalent yields on assets and average costs of liabilities. These yields and costs are calculated by dividing the income or expense by the average daily balance of the associated assets or liabilities (amounts in thousands).

	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
Interest earning assets						
Loans	\$ 1,969,975	\$ 80,417	5.46%	\$ 1,405,947	\$ 51,153	4.86%
Mortgage loans held for sale	8,775	241	3.67%	12,771	301	3.15%
Investment securities:						
Taxable securities	797,421	10,767	1.81%	846,619	10,053	1.59%
Tax-exempt securities	73,044	1,595	2.92%	82,049	1,739	2.83%
Interest bearing balances in other banks	29,886	1,028	4.60%	26,147	199	1.02%
Federal funds sold	35,044	1,390	5.30%	1,842	2	0.15%
Total interest earning assets	\$ 2,914,145	\$ 95,438	4.39%	\$ 2,375,375	\$ 63,447	3.58%
Interest bearing liabilities						
Interest bearing transaction accounts	\$ 643,614	\$ 5,753	1.20%	\$ 533,687	\$ 387	0.10%
Savings and money market accounts	846,563	12,337	1.95%	813,613	1,282	0.21%
Time deposits	495,356	11,810	3.19%	266,957	1,229	0.62%
Securities sold under repurchase agreements	17,393	403	3.10%	10,197	25	0.33%
Federal Home Loan Bank advances	129,590	4,576	4.72%	7,619	60	1.05%
Subordinated debentures	40,000	1,251	4.18%	40,000	1,256	4.20%
Line of credit	8,377	520	0.00%	-	-	0.00%
Total interest bearing liabilities	\$ 2,180,893	\$ 36,650	2.25%	\$ 1,672,073	\$ 4,239	0.34%
Noninterest-bearing funding of earning assets	733,252	-	0.00%	703,302	-	0.00%
Total cost of funding earning assets	\$ 2,914,145	\$ 36,650	1.68%	\$ 2,375,375	\$ 4,239	0.24%
Net interest rate spread			2.14%			3.24%
Net interest income/margin (taxable equivalent)		\$ 58,788	2.70%		\$ 59,208	3.33%
Tax equivalent adjustment		(676)			(550)	
Net interest income/margin		\$ 58,112	2.67%		\$ 58,658	3.30%

The following table reflects, for the nine months ended September 30, 2023 and 2022, the changes in our net interest income due to variances in the volume of interest earning assets and interest bearing liabilities and variances in the associated rates earned or paid on these assets and liabilities (amounts in thousands).

	Nine Months Ended September 30, 2023 vs. Nine Months Ended September 30, 2022		
	Volume	Variance due to Yield/Rate	Total
Interest earning assets			
Loans	\$ 20,423	\$ 8,841	\$ 29,264
Mortgage loans held for sale	(94)	34	(60)
Investment securities:			
Taxable securities	(598)	1,312	714
Tax-exempt securities	(193)	49	(144)
Interest bearing balances in other banks	29	800	829
Federal funds sold	138	1,250	1,388
Total interest earning assets	\$ 19,705	\$ 12,286	\$ 31,991
Interest bearing liabilities			
Interest bearing transaction accounts	\$ 82	\$ 5,284	\$ 5,366
Savings and money market accounts	52	11,003	11,055
Time deposits	1,058	9,523	10,581
Short-term debt	(5)	383	378
Federal Home Loan Bank advances	978	3,538	4,516
Subordinated debentures	1	(6)	(5)
Line of credit	-	520	520
Total interest bearing liabilities	\$ 2,166	\$ 30,245	\$ 32,411
Net interest income			
Net interest income (taxable equivalent)	\$ 17,539	\$ (17,959)	\$ (420)
Taxable equivalent adjustment	(101)	(25)	(126)
Net interest income	\$ 17,438	\$ (17,984)	\$ (546)

Total interest income for the nine months ended September 30, 2023 was \$94.8 million and total interest expense was \$36.7 million, resulting in net interest income of \$58.1 million for the period. For the same period of 2022, total interest income was \$62.9 million and total interest expense was \$4.2 million, resulting in net interest income of \$58.7 million for the period. This represents a 0.93% decrease in net interest income when comparing the same period from 2023 and 2022. When comparing the variances related to interest income for the nine months ended September 30, 2023 and 2022, the increase was primarily attributed to increases in average volumes in loans. The volume related increase in interest income for the nine months ended September 30, 2023 was accompanied by an increase in the yield on loans and investment securities. When comparing variances related to interest expense for the nine months ended September 30, 2023 and 2022, the increase primarily resulted from an increase in deposit and borrowing rates in 2023.

Provision for Credit Losses

On January 1, 2023, we adopted ASC 326, which introduces the current expected credit losses (CECL) methodology and requires us to estimate all expected credit losses over the remaining life of our loans. Accordingly, the provision for credit losses represents a charge to earnings necessary to establish an allowance for credit losses that, in management's evaluation, is adequate to provide coverage for all expected credit losses. As a result of evaluating the allowance for credit losses at September 30, 2023, management recorded a provision for credit losses of \$1.31 million in the third quarter of 2023 compared to \$1.33 million in the third quarter of 2022. The decreased provision for credit losses allocated was primarily due to continued improvement in economic conditions. In management's evaluation, our allowance for credit losses reflects an amount we believe appropriate, based on our allowance assessment methodology, to adequately cover all expected future losses as of the date the allowance is determined.

Noninterest Income

In addition to net interest income, we generate various types of noninterest income from our operations. Our banking operations generate revenue from service charges and fees mainly on deposit accounts. Our mortgage division generates revenue from originating and selling mortgage loans. Our investment brokerage division generates revenue through a revenue-sharing relationship with a registered broker-dealer. We also own life insurance policies on several key employees and record income on the increase in the cash surrender value of these policies.

The following table sets forth the principal components of noninterest income for the periods indicated (amounts in thousands).

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Service charges and fees	\$ 1,946	\$ 1,787	\$ 5,569	\$ 5,121
Investment brokerage revenue	134	116	435	519
Mortgage operations	1,234	908	2,814	4,209
Bank owned life insurance income	328	312	957	922
Net gain (loss) on sales of investment securities	-	(796)	5	(2,062)
Other noninterest income	288	129	5,393	552
Total noninterest income	<u>\$ 3,930</u>	<u>\$ 2,456</u>	<u>\$ 15,173</u>	<u>\$ 9,261</u>

Noninterest income for the three months ended September 30, 2023 was \$3.9 million compared to \$2.5 million for the same period in 2022. The most significant increase in noninterest income was due to a decrease in the loss on sales of investment securities.

Noninterest income for the nine months ended September 30, 2023 was \$15.2 million compared to \$9.3 million for the same period in 2022. The most significant increase in other noninterest income was due to a \$3.7 million Community Development Financial Institution award while the most significant decrease was a \$1.4 million decrease in mortgage operations revenue.

Noninterest Expense

Noninterest expenses consist primarily of salaries and employee benefits, building occupancy and equipment expenses, advertising and promotion expenses, data processing expenses, legal and professional services and miscellaneous other operating expenses.

The following table sets forth the principal components of noninterest expense for the periods indicated (amounts in thousands).

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Salaries and employee benefits	\$ 9,035	\$ 8,108	\$ 27,064	\$ 22,598
Occupancy expenses	934	764	2,764	2,054
Equipment rentals, depreciation, and maintenance	530	410	1,507	1,089
Telephone and communications	129	132	409	343
Advertising and business development	390	311	1,011	687
Data processing	779	913	2,729	2,635
Foreclosed assets, net	38	22	73	(20)
Federal deposit insurance and other regulatory assessments	698	248	1,992	902
Legal and other professional services	301	376	1,302	983
Other operating expense	2,233	2,219	6,557	5,790
Total noninterest expense	\$ 15,067	\$ 13,503	\$ 45,408	\$ 37,061

Noninterest expense for the three months ended September 30, 2023 totaled \$15.1 million compared with \$13.5 million for the same period of 2022. The overall increase was primarily a result of increases in salaries and employee benefits. Salaries and employee benefits increased \$927.0 thousand, or 11.43%, to \$9.0 million in the third quarter of 2023 from \$8.1 million in the third quarter of 2022. The number of full-time equivalent employees increased from approximately 304 at September 30, 2022 to approximately 342 at September 30, 2023 for an increase of approximately 12.50%.

Noninterest expense for the nine months ended September 30, 2023 totaled \$45.4 million compared with \$37.1 million for the same period of 2022. The increase was primarily a result of increases in salaries and employee benefits expense. Salaries and employee benefits increased \$4.5 million, or 19.76%, to \$27.1 million in the first nine months of 2023 from \$22.6 million in the first nine months of 2022.

Provision for Income Taxes

We recognized income tax expense of \$1.7 million for the three months ended September 30, 2023, compared to \$2.0 million for the three months ended September 30, 2022. The effective tax rate for the three months ended September 30, 2023 was 22.6% compared to 22.5% for the same period in 2022. The effective tax rate is affected by levels of items of income that are not subject to federal and/or state taxation and by levels of items of expense that are not deductible for federal and/or state income tax purposes.

We recognized income tax expense of \$5.3 million for the nine months ended September 30, 2023, compared to \$6.5 million for the nine months ended September 30, 2022. The effective tax rate for the nine months ended September 30, 2023 was 22.2% compared to 22.6% for the same period in 2022. The effective tax rate is affected by levels of items of income that are not subject to federal and/or state taxation and by levels of items of expense that are not deductible for federal and/or state income tax purposes.

Comparison of Financial Condition at September 30, 2023 and December 31, 2022

Overview

Our total assets increased \$345.7 million, or 12.20%, from December 31, 2022 to September 30, 2023. Loans, net of deferred fees and discounts, increased \$319.3 million, or 17.71%, from December 31, 2022 to September 30, 2023. Securities available-for-sale decreased by \$63.3 million, or -9.50%, and securities held-to-maturity decreased by \$3.7 million, or -2.78%, from December 31, 2022 to September 30, 2023, respectively. Cash and cash equivalents increased \$70.3 million, or 93.92% from December 31, 2022 to September 30, 2023. Total deposits increased \$262.6 million, or 10.44%, from December 31, 2022 to September 30, 2023 which funded a majority of our loan growth. Total stockholders' equity increased \$35.1 million, or 26.18% from December 31, 2022 to September 30, 2023.

Investment Securities

We use our securities portfolio primarily to enhance our overall yield on interest-earning assets and as a source of liquidity, as a tool to manage our balance sheet sensitivity and regulatory capital ratios, and as a base upon which to pledge assets for public deposits. When our liquidity position exceeds current needs and our expected loan demand, other investments are considered as a secondary earnings alternative. As investments mature, they are used to meet current cash needs, or they are reinvested to maintain our desired liquidity position. We have designated the majority of our securities as available-for-sale to provide flexibility, in case an immediate need for liquidity arises, and we believe that the composition of the portfolio offers needed flexibility in managing our liquidity position and interest rate sensitivity without adversely impacting our regulatory capital levels. In certain cases, we have designated securities as held-to-maturity to protect capital from changes in the value of the securities portfolio. Securities available-for-sale are reported at fair value with unrealized gains or losses reported as a separate component of other comprehensive loss, net of related deferred taxes while securities held-to-maturity are reported at amortized cost. Purchase premiums and discounts are recognized in income using the interest method over the terms of the securities.

During the nine months ended September 30, 2023, we purchased investment securities totaling \$4.9 million and sold investment securities with proceeds received of \$15.3 million including net realized gains of \$5.0 thousand.

The following tables summarize the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of debt securities at September 30, 2023 and December 31, 2022 (amounts in thousands).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2023:				
Securities available-for-sale:				
Residential mortgage-backed	\$ 421,870	\$ -	\$ (72,901)	\$ 348,969
U.S. treasury securities	130,778	-	(14,097)	116,681
U.S. govt. sponsored enterprises	69,586	-	(7,117)	62,469
State, county, and municipal	73,642	-	(14,227)	59,415
Corporate debt obligations	17,774	8	(2,691)	15,091
Total available-for-sale	<u>\$ 713,650</u>	<u>\$ 8</u>	<u>\$ (111,033)</u>	<u>\$ 602,625</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2023:				
Securities held-to-maturity:				
Residential mortgage-backed	\$ 65,070	\$ -	\$ (15,217)	\$ 49,853
State, county, and municipal	62,854	-	(15,044)	47,810
Total held-to-maturity	<u>\$ 127,924</u>	<u>\$ -</u>	<u>\$ (30,261)</u>	<u>\$ 97,663</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022:				
Securities available-for-sale:				
Residential mortgage-backed	\$ 449,348	\$ -	\$ (59,311)	\$ 390,037
U.S. treasury securities	130,971	-	(13,342)	117,629
U.S. govt. sponsored enterprises	72,889	-	(6,527)	66,362
State, county, and municipal	87,347	71	(11,555)	75,863
Corporate debt obligations	17,873	16	(1,893)	15,996
Total available-for-sale	<u>\$ 758,428</u>	<u>\$ 87</u>	<u>\$ (92,628)</u>	<u>\$ 665,887</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022:				
Securities held-to-maturity:				
Residential mortgage-backed	\$ 68,688	\$ -	\$ (12,624)	\$ 56,064
State, county, and municipal	62,893	-	(13,680)	49,213
Total held-to-maturity	<u>\$ 131,581</u>	<u>\$ -</u>	<u>\$ (26,304)</u>	<u>\$ 105,277</u>

Loans

Loans are the largest category of interest earning assets and typically provide higher yields than other types of interest earning assets. Associated with the higher loan yields are the inherent credit and liquidity risks which management attempts to control and counterbalance. Total loans averaged \$2.08 billion during the three months ended September 30, 2023, or 69.1% of average interest earning assets, as compared to \$1.54 billion, or 62.1% of average interest earning assets, for the three months ended September 30, 2022. At September 30, 2023, total loans, net of deferred loan fees and discounts, were \$2.12 billion, compared to \$1.80 billion at December 31, 2022, an increase of \$319.3 million, or 17.71%.

The organic, or non-acquired, growth in our loan portfolio is attributable both to our ability to attract new customers and to our ability to benefit from the overall growth in our markets. We seek to build relationships with new customers, maintain and even improve our relationships with existing customers, and encourage our bankers to be involved in their communities. We expect our bankers to recognize business development efforts and to maintain healthy relationships with clients, and our philosophy is to be responsive to customer needs by providing decisions in a timely manner. In addition to our business development efforts, many of the markets that we serve have shown signs of economic recovery over the last few years.

The following table provides a summary of the loan portfolio as of September 30, 2023, and December 31, 2022.

	September 30, 2023		December 31, 2022	
	Amount	% of Total	Amount	% of Total
Residential real estate:				
Closed-end 1-4 family - first lien	\$ 727,298	34.7%	\$ 573,033	32.2%
Closed-end 1-4 family - junior lien	11,666	0.6%	9,422	0.5%
Multi-family	19,162	0.9%	14,106	0.8%
Total residential real estate	<u>758,126</u>	<u>36.2%</u>	<u>596,561</u>	<u>33.5%</u>
Commercial real estate:				
Nonfarm nonresidential	548,800	26.2%	497,766	28.0%
Farmland	58,981	2.8%	53,691	3.0%
Total commercial real estate	<u>607,781</u>	<u>29.0%</u>	<u>551,457</u>	<u>31.0%</u>
Construction and land development:				
Residential	106,716	5.1%	121,363	6.8%
Other	169,031	8.1%	135,127	7.6%
Total construction and land development	<u>275,747</u>	<u>13.2%</u>	<u>256,490</u>	<u>14.4%</u>
Home equity lines of credit	84,405	4.0%	64,215	3.6%
Commercial loans:				
Other commercial loans	244,890	11.7%	193,053	10.9%
Agricultural	66,320	3.2%	56,946	3.2%
State, county, and municipal loans	36,058	1.7%	40,964	2.3%
Total commercial loans	<u>347,268</u>	<u>16.6%</u>	<u>290,963</u>	<u>16.4%</u>
Consumer loans				
Total gross loans	<u>2,130,356</u>	<u>101.7%</u>	<u>1,809,278</u>	<u>101.7%</u>
Allowance for credit losses	(27,832)	-1.3%	(24,310)	-1.4%
Net discounts	(140)	0.0%	(279)	0.0%
Net deferred loan fees	(7,773)	-0.4%	(5,872)	-0.3%
Net loans	<u>\$ 2,094,611</u>	<u>100.0%</u>	<u>\$ 1,778,817</u>	<u>100.0%</u>

In this context, a “real estate loan” is defined as any loan, secured by real estate, regardless of the purpose of the loan. It is common practice for financial institutions in our market areas, and for our Bank, to obtain a security interest or lien in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan portfolio component. In general, we prefer real estate collateral to many other potential collateral sources, such as accounts receivable, inventory and equipment.

Real estate loans are the largest component of our loan portfolio and include residential real estate loans, commercial real estate loans, and construction and land development loans. At September 30, 2023, this category totaled \$1.6 billion, or 77.06% of total gross loans, compared to \$1.4 billion, or 77.63%, at December 31, 2022. Real estate loans increased \$237.1 million, or 16.88%, during the period December 31, 2022 to September 30, 2023. Commercial loans increased \$56.3 million, or 19.35% during the same period. Our management team and lending officers have a great deal of experience and expertise in real estate lending and commercial lending.

The federal regulatory agencies recently issued two “guidance” documents that have a significant impact on real estate related lending and, thus, on the operations of the Bank. One part of the guidance could require lenders to restrict lending secured primarily by certain categories of commercial real estate to a level of 300% of their capital or to raise additional capital. This factor, combined with the current economic environment, could affect the Bank’s lending strategy away from, or to limit its expansion of, commercial real estate lending, which has been a material part of River Financial Corporation’s lending strategy. This could also have a negative impact on our lending and profitability. Management actively monitors the composition of the Bank’s loan portfolio, focusing on concentrations of credit, and the results of that monitoring activity are periodically reported to the Board of Directors.

The other guidance relates to the structuring of certain types of mortgages that allow negative amortization of consumer mortgage loans. Although the Bank does not engage at present in lending using these types of instruments, the guidance could have the effect of making the Bank less competitive in consumer mortgage lending if the local market is driving the demand for such an offering.

The repayment of loans is a source of additional liquidity for us. The following table sets forth our variable rate and fixed rate loans maturing within specific intervals at September 30, 2023.

LOAN MATURITY AND SENSITIVITY TO CHANGES IN INTEREST RATES

	One year or less	Over one year through five years	Over five years through fifteen years	Over fifteen years	Total
Variable Rate Loans:					
Residential real estate:					
Closed-end 1-4 family - first lien	\$ 2,868	\$ 2,513	\$ 4,235	\$ 377,786	\$ 387,402
Closed-end 1-4 family - junior lien	215	-	-	457	672
Multi-family	392	2,500	-	-	2,892
Total residential real estate	3,475	5,013	4,235	378,243	390,966
Commercial real estate:					
Nonfarm nonresidential	6,261	11,630	1,709	-	19,600
Farmland	1,359	1,656	-	247	3,262
Total commercial real estate	7,620	13,286	1,709	247	22,862
Construction and land development:					
Residential	18,911	-	374	45,756	65,041
Other	4,707	7,974	-	850	13,531
Total construction and land development	23,618	7,974	374	46,606	78,572
Home equity lines of credit	5,903	4,276	53,456	-	63,635
Commercial loans:					
Other commercial loans	59,670	12,001	7,683	-	79,354
Agricultural	40,431	26	-	-	40,457
State, county, and municipal loans	-	-	-	-	-
Total commercial loans	100,101	12,027	7,683	-	119,811
Consumer loans	2,225	716	55	-	2,996
Total gross variable rate loans	\$ 142,942	\$ 43,292	\$ 67,512	\$ 425,096	\$ 678,842

	One year or less	Over one year through five years	Over five years through fifteen years	Over fifteen years	Total
Fixed Rate Loans:					
Residential real estate:					
Closed-end 1-4 family - first lien	\$ 16,271	\$ 144,006	\$ 74,574	\$ 105,045	\$ 339,896
Closed-end 1-4 family - junior lien	757	8,063	1,864	310	10,994
Multi-family	127	10,540	5,087	516	16,270
Total residential real estate	17,155	162,609	81,525	105,871	367,160
Commercial real estate:					
Nonfarm nonresidential	27,278	241,868	254,796	5,258	529,200
Farmland	790	34,106	20,754	69	55,719
Total commercial real estate	28,068	275,974	275,550	5,327	584,919
Construction and land development:					
Residential	40,116	830	166	563	41,675
Other	32,520	64,708	58,068	204	155,500
Total construction and land development	72,636	65,538	58,234	767	197,175
Home equity lines of credit	137	3,345	17,288	-	20,770
Commercial loans:					
Other commercial loans	19,318	106,996	39,172	50	165,536
Agricultural	7,771	16,585	1,507	-	25,863
State, county, and municipal loans	2,242	9,546	24,270	-	36,058
Total commercial loans	29,331	133,127	64,949	50	227,457
Consumer loans	6,062	30,035	17,800	136	54,033
Total fixed rate gross loans	\$ 153,389	\$ 670,628	\$ 515,346	\$ 112,151	\$ 1,451,514
Total Loans:					
Residential real estate:					
Closed-end 1-4 family - first lien	\$ 19,139	\$ 146,519	\$ 78,809	\$ 482,831	\$ 727,298
Closed-end 1-4 family - junior lien	972	8,063	1,864	767	11,666
Multi-family	519	13,040	5,087	516	19,162
Total residential real estate	20,630	167,622	85,760	484,114	758,126
Commercial real estate:					
Nonfarm nonresidential	33,539	253,498	256,505	5,258	548,800
Farmland	2,149	35,762	20,754	316	58,981
Total commercial real estate	35,688	289,260	277,259	5,574	607,781
Construction and land development:					
Residential	59,027	830	540	46,319	106,716
Other	37,227	72,682	58,068	1,054	169,031
Total construction and land development	96,254	73,512	58,608	47,373	275,747
Home equity lines of credit	6,040	7,621	70,744	-	84,405
Commercial loans:					
Other commercial loans	78,988	118,997	46,855	50	244,890
Agricultural	48,202	16,611	1,507	-	66,320
State, county, and municipal loans	2,242	9,546	24,270	-	36,058
Total commercial loans	129,432	145,154	72,632	50	347,268
Consumer loans	8,287	30,751	17,855	136	57,029
Total gross loans	\$ 296,331	\$ 713,920	\$ 582,858	\$ 537,247	\$ 2,130,356

The information presented in the table above is based upon the contractual maturities of the individual loans, which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms at their maturity. Consequently, we believe that this treatment presents fairly the maturity structure of the loan portfolio.

Allowance for Credit Losses, Provision for Credit Losses and Asset Quality

Allowance for credit losses and provision for credit losses

The allowance for credit losses represents management's estimate of probable inherent credit losses in the loan portfolio. Management determines the allowance based on an ongoing evaluation of risk as it correlates to potential losses within the portfolio. Increases to the allowance for credit losses are made by charges to the provision for credit losses. Loans deemed to be uncollectible are charged against the allowance. Recoveries of previously charged-off amounts are credited to the allowance for credit losses.

The Bank recognizes that all significant factors that affect the collectability of the loan portfolio must be considered to determine the estimated credit losses as of the evaluation date. Furthermore, the methodology, in and of itself and even when selectively adjusted by comparison to market and peer data, does not provide a sufficient basis to determine the estimated credit losses. The Bank adjusts the modeled historical losses by a qualitative adjustment to incorporate all significant risks to form a sufficient basis to estimate the credit losses. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, and concentrations, trends in underlying collateral, as well as external factors and economic conditions not already captured.

Loans that do not share risk characteristics are evaluated on an individual basis. Generally, this population includes loans on non-accrual status, however, they can also include any loan that does not share risk characteristics with its respective pool. When management determines that foreclosure is probable and the borrower is experiencing financial difficulty, the expected credit losses are based on the fair value of the collateral at the reporting date unadjusted for selling costs as appropriate. When the expected source of repayment is from a source other than the underlying collateral, impairment will generally be measured based on the present value of expected proceeds discounted at the contractual interest rate.

Management believes the data it uses in determining the allowance for credit losses is sufficient to estimate potential losses in the loan portfolio; however, actual results could differ from management's estimate.

The following table presents a summary of changes in the allowance for credit losses for the periods indicated (amounts in thousands).

	As of and for the Three Months Ended:		As of and for the Nine Months Ended:	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Allowance for credit losses at beginning of period	\$ 26,809	\$ 21,777	\$ 24,310	\$ 20,922
Impact of adopting ASC 326	80	-	80	-
Charge-offs:				
Mortgage loans on real estate:				
Residential real estate	-	-	-	42
Commercial real estate	-	-	-	-
Construction and land development	-	-	196	-
Total mortgage loans on real estate	-	-	196	42
Home equity lines of credit	-	-	-	-
Commercial	348	57	510	205
Consumer	58	22	98	22
Total	406	79	804	269
Recoveries:				
Mortgage loans on real estate:				
Residential real estate	-	-	-	-
Commercial real estate	3	-	81	63
Construction and land development	-	-	-	5
Total mortgage loans on real estate	3	-	81	68
Home equity lines of credit	-	41	-	41
Commercial	19	16	205	50
Consumer	16	6	27	19
Total	38	63	313	178
Net charge-offs	368	16	491	91
Provision for credit losses	1,311	1,330	3,933	2,260
Allowance for credit losses at end of period	\$ 27,832	\$ 23,091	\$ 27,832	\$ 23,091
Total loans outstanding, net of deferred loan fees	2,122,443	1,647,386	2,122,443	1,647,386
Average loans outstanding, net of deferred loan fees	2,084,083	1,539,788	1,969,975	1,405,947
Allowance for credit losses to period end loans	1.31%	1.40%	1.31%	1.40%
Net charge-offs to average loans (annualized)	0.07%	0.00%	0.03%	0.01%

Allocation of the Allowance for Credit Losses

While no portion of the allowance for credits losses is in any way restricted to any individual loan or group of loans and the entire allowance is available to absorb losses from any and all loans, the following table represents management's allocation of the allowance for credit losses to specific loan categories as of the dates indicated (amounts in thousands).

	September 30, 2023		December 31, 2022	
	Amount	Percent of Total	Amount	Percent of Total
Mortgage loans on real estate:				
Residential real estate	\$ 6,485	23.3%	\$ 5,088	20.9%
Commercial real estate	11,186	40.2%	10,057	41.4%
Construction and land development	3,720	13.4%	3,377	13.9%
Total mortgage loans on real estate	21,391	76.9%	18,522	76.2%
Home equity lines of credit	890	3.2%	562	2.3%
Commercial	4,958	17.8%	4,778	19.7%
Consumer	593	2.1%	448	1.8%
Total	\$ 27,832	100.0%	\$ 24,310	100.0%

Nonperforming Assets

The following table presents our nonperforming assets as of the dates indicated (amounts in thousands):

	September 30,		December 31,
	2023	2022	2022
Nonaccrual loans	\$ 4,770	\$ 1,561	\$ 1,356
Accruing loans past due 90 days or more	-	141	138
Total nonperforming loans	4,770	1,702	1,494
Foreclosed assets	516	514	609
Total nonperforming assets	\$ 5,286	\$ 2,216	\$ 2,103
Allowance for credit losses to period end loans	1.31%	1.40%	1.35%
Allowance for credit losses to period end nonperforming loans	583.48%	1356.70%	1627.18%
Net charge-offs (recoveries) to average loans (annualized)	0.03%	0.01%	0.03%
Nonperforming assets to period end loans and foreclosed property	0.25%	0.13%	0.12%
Nonperforming loans to period end loans	0.22%	0.10%	0.08%
Nonperforming assets to total assets	0.17%	0.08%	0.07%
Period end loans	2,122,443	1,647,386	1,803,127
Period end total assets	3,179,036	2,639,743	2,833,382
Allowance for credit losses	27,832	23,091	24,310
Average loans for the period	1,969,975	1,405,947	1,486,478
Net charge-offs for the period	491	91	452
Period end loans plus foreclosed property	2,122,959	1,647,900	1,803,736

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that the collection of interest is doubtful. In addition to consideration of these factors, loans that are past due 90 days or more are generally placed on nonaccrual status. When a loan is placed on nonaccrual status, all accrued interest on the loan is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until collection of both principal and interest becomes reasonably certain. Payments received while a loan is on nonaccrual status will generally be applied to the outstanding principal balance. When a problem loan is finally resolved, there may ultimately be an actual write-down or charge-off of the principal balance of the loan that would necessitate additional charges to the allowance for credit losses.

Deposits

Deposits, which include noninterest bearing demand deposits, interest bearing demand deposits, money market accounts, savings accounts, and time deposits, are the principal source of funds for the Bank. We offer a variety of products designed to attract and retain customers, with primary focus on building and expanding client relationships. Management continues to focus on establishing a comprehensive relationship with consumer and business borrowers, seeking deposits as well as lending relationships.

The following table details the composition of our deposit portfolio as of September 30, 2023, and December 31, 2022.

	September 30, 2023		December 31, 2022	
	Amount	Percent of Total	Amount	Percent of Total
Demand deposits, non-interest bearing	\$ 644,396	23.3%	\$ 672,956	26.8%
Demand deposits, interest bearing	725,823	26.1%	610,944	24.3%
Money market accounts	761,380	27.4%	664,855	26.4%
Savings deposits	115,085	4.1%	120,030	4.8%
Time certificates of \$250 thousand or more	246,127	8.9%	125,661	5.0%
Other time certificates	283,939	10.2%	319,753	12.7%
Totals	<u>\$ 2,776,750</u>	<u>100.0%</u>	<u>\$ 2,514,199</u>	<u>100.0%</u>

Total deposits were \$2.78 billion at September 30, 2023, an increase of \$262.6 million from December 31, 2022 with the increase resulting mainly in the balances of interest bearing demand deposits, money market account, and time deposit accounts. Some of our demand deposit accounts are seasonal and have expected balance fluctuations. The seasonality of these demand deposits is related to property tax collections and to agricultural production.

The following table presents the Bank's time certificates of deposits by various maturities as of September 30, 2023 (amounts in thousands).

	All Time Deposits	Time Deposits \$100 or more	Time Deposits less than \$100
Three months or less	\$ 164,649	\$ 147,721	\$ 16,928
Greater than three months through six months	125,934	103,626	22,308
Greater than six months through one year	151,613	122,724	28,889
Greater than one year through three years	80,737	63,908	16,829
Greater than three years	7,133	4,597	2,536
Total	<u>\$ 530,066</u>	<u>\$ 442,576</u>	<u>\$ 87,490</u>

Other Funding Sources

We supplement our deposit funding with wholesale funding when needed for balance sheet planning and management or when the terms are attractive and will not disrupt our offering rates in our markets. A source we have used for wholesale funding is the Federal Home Loan Bank of Atlanta (FHLB). The line of credit with the FHLB is secured by pledges of various loans in our loan portfolio. At September 30, 2023, the FHLB line of credit available was \$361.2 million and at December 31, 2022 it was \$326.8 million. As of September 30, 2023 and December 31, 2022, we had \$155 million and \$95 million Federal Home Loan Bank advances outstanding, respectively. We also have lines of credit for federal funds borrowings with other banks that totaled \$88.5 million at both September 30, 2023 and December 31, 2022. Furthermore, we have pledged certain loans to the Federal Reserve Bank (FRB) to secure a line of credit. At September 30, 2023, the FRB line of credit available was \$167.3 million and at December 31, 2022, the FRB line of credit available was \$133.1 million. Another source that we have used for wholesale funding is the Federal Reserve Bank discount window. At September 30, 2023 and December 31, 2022, we had zero and \$25 million borrowings outstanding with the Federal Reserve Bank discount window, respectively.

On August 9, 2021, the Company entered into a line of credit agreement with ServisFirst Bank for \$10 million. The line of credit agreement was amended on March 17, 2023 to increase the line to \$20 million. The line of credit is to be used for general capital needs and investments. The line, when drawn, will require quarterly payments of interest only and matures on March 17, 2024. The interest rate floats at Wall Street Journal Prime with a floor of 3.25%. The line of credit is secured by 51% of the Company's stock.

On March 9, 2021, River Financial Corporation ("the Company") entered into a Subordinated Note Purchase Agreement (the "Purchase Agreement") with the purchasers signatory thereto providing for a private placement of \$40 million in aggregate principal amount of 4.00% fixed-to-floating rate Subordinated Notes due March 15, 2031 (the "Notes"). The Notes were issued by the Company to the purchasers at a price equal to 100% of their face amount. Interest on the Notes will accrue from March 9, 2021, and the Company will pay interest semi-annually on March 15th and September 15th of each year, beginning on September 15, 2021, until the Notes mature. The Notes will bear interest at a fixed rate of 4.00% per year, from and including March 9, 2021 to, but excluding, March 15, 2026. From and including March 15, 2026, but excluding the maturity date or early redemption date, the interest rate will reset quarterly at a variable rate equal to the then current three-month term SOFR plus 342 basis points. The Notes may not be prepaid by the Company prior to March 15, 2026. From and after March 15, 2026, the Company may prepay all or, from time to time, any part of the Notes at 100% of the principal amount (plus accrued interest) without penalty, subject to any requirement under Federal Reserve Board regulations to obtain prior approval from the Board of Governors of the Federal Reserve System before making any prepayment. The Notes may also be prepaid by the Company at any time after the occurrence of an event that would preclude the Notes from being included in the Tier 2 Capital of the Company. The Purchase Agreement contains customary representations and warranties, events of default, and affirmative and negative covenants, including the requirement that, subject to certain limitations, the Company restructure any portion of the Notes that ceases to be deemed Tier 2 Capital. The Company used approximately \$19.7 million of the net proceeds from the issuance of the Notes to pay off its note with CenterState Bank dated October 31, 2018, including interest accrued on such notes, and the remaining proceeds for general corporate purposes, including providing capital to support the organic growth of its bank subsidiary, River Bank.

Liquidity

Market and public confidence in our financial strength and financial institutions in general will largely determine our access to appropriate levels of liquidity. This confidence is significantly dependent on our ability to maintain sound asset quality and appropriate levels of capital reserves.

Liquidity is defined as the ability to meet anticipated customer demands for funds under credit commitments and deposit withdrawals at a reasonable cost and on a timely basis. We measure our liquidity position by giving consideration to both on- and off-balance sheet sources of and demands for funds on a daily, weekly and monthly basis.

Liquidity risk involves the risk of being unable to fund assets with the appropriate duration and rate-based liabilities, as well as the risk of not being able to meet unexpected cash needs. Liquidity planning and management are necessary to ensure the ability to fund operations cost-effectively and to meet current and future potential obligations such as loan commitments and unexpected deposit outflows. In this process, we focus on assets and liabilities and on the manner in which they combine to provide adequate liquidity to meet our needs.

Funds are available from a number of basic banking activity sources, including the core deposit base, the repayment and maturity of loans, and investment cash flows. Other funding sources include federal funds borrowings, brokered certificates of deposit and borrowings from the FHLB and FRB.

Cash and cash equivalents at September 30, 2023 and December 31, 2022, were \$145.1 million and \$74.8 million, respectively. Based on recorded cash and cash equivalents, management believes River Financial Corporation's liquidity resources were sufficient at September 30, 2023 to fund loans and meet other cash needs as necessary.

Off-Balance Sheet Arrangements

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized by the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. In most cases, the Company requires collateral or other security to support financial instruments with credit risk.

Financial instruments whose contract amount represents credit risk at September 30, 2023 and December 31, 2022 were as follows (amounts in thousands):

	September 30, 2023	December 31, 2022
Commitments to extend credit	\$ 484,568	\$ 420,670
Stand-by and performance letters of credit	5,933	5,027
Total	<u>\$ 490,501</u>	<u>\$ 425,697</u>

Contractual Obligations

While our liquidity monitoring and management considers both present and future demands for and sources of liquidity, the following table of contractual commitments focuses only on future obligations as of September 30, 2023 (amounts in thousands).

	Due in 1 year or less	Due after 1 through 3 years	Due after 3 through 5 years	Due after 5 years	Total
Deposits without a stated maturity	\$ 2,246,684	\$ -	\$ -	\$ -	\$ 2,246,684
Certificates of deposit of less than \$100	68,125	16,829	2,536	-	87,490
Certificates of deposit of \$100 or more	374,071	63,908	4,597	-	442,576
Securities sold under agreements to repurchase	19,815	-	-	-	19,815
Federal Home Loan Bank advances	95,000	-	-	60,000	155,000
Subordinated debt, net of loan costs	-	-	-	39,474	39,474
Operating leases	818	1,199	801	1,896	4,714
Total contractual obligations	<u>\$ 2,804,513</u>	<u>\$ 81,936</u>	<u>\$ 7,934</u>	<u>\$ 101,370</u>	<u>\$ 2,995,753</u>

Capital Position and Dividends

At September 30, 2023 and December 31, 2022, total stockholders' equity was \$169.1 million and \$134.0 million, respectively. The increase of approximately \$35.1 million resulted mainly from the issuance of 968,904 shares of common stock issued in a capital raise as well as the net change in retained earnings and accumulated other comprehensive loss for the nine months ended September 30, 2023. Retained earnings for the first nine months of 2023 increased \$15.4 million, the capital raise increased additional paid-in capital approximately \$31.9 million, and accumulated other comprehensive loss increased \$13.6 million. The ratio of stockholders' equity to total assets was 5.32% and 4.73% at September 30, 2023 and December 31, 2022, respectively.

River Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Certain items such as goodwill and other intangible assets are deducted from total capital in arriving at the various regulatory capital measures such as Common Equity Tier 1 capital, Tier 1 capital, and total risk-based capital. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on River Financial Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, River Bank must meet specific capital guidelines that involve quantitative measures of the bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory regulations and guidelines. River Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

River Bank is eligible to utilize the community bank leverage ratio (CBLR) framework. The Bank has evaluated this option and has elected not to utilize the CBLR framework at this time, but may do so in the future.

Quantitative measures, established by regulation to ensure capital adequacy effective January 1, 2015, require River Financial Corporation and River Bank to maintain minimum amounts and ratios (set forth in the table below) of total risk based capital, Common Equity Tier 1 capital, and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and of Tier 1 capital (as defined in the regulations) to average assets (as defined in the regulations).

Management believes, as of September 30, 2023, that the Company and Bank meet all capital adequacy requirements to which they are subject. The following table presents the Company's and Bank's capital amounts and ratios as of September 30, 2023 with the required minimum levels for capital adequacy purposes including the phase in of the capital conservation buffer under Basel III and minimum levels to be well capitalized (as defined) under the regulatory prompt corrective action regulations.

As of September 30, 2023:

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations ⁽¹⁾	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
River Financial Corporation:						
Total Capital (To Risk-Weighted Assets)	\$ 297,858	13.075%	\$ 239,198	>= 10.500%	N/A	N/A
Common Equity Tier 1 Capital (To Risk-Weighted Assets)	230,026	10.097%	159,471	>= 7.000%	N/A	N/A
Tier 1 Capital (To Risk-Weighted Assets)	230,026	10.097%	193,644	>= 8.500%	N/A	N/A
Tier 1 Capital (To Average Assets)	230,026	7.448%	123,537	>= 4.000%	N/A	N/A
River Bank:						
Total Capital (To Risk-Weighted Assets)	\$ 293,347	12.877%	\$ 239,197	>= 10.500%	\$ 227,807	>= 10.00%
Common Equity Tier 1 Capital (To Risk-Weighted Assets)	265,515	11.655%	159,464	>= 7.000%	148,074	>= 6.50%
Tier 1 Capital (To Risk-Weighted Assets)	265,515	11.655%	193,635	>= 8.500%	182,245	>= 8.00%
Tier 1 Capital (To Average Assets)	265,515	8.597%	123,534	>= 4.000%	154,418	>= 5.00%

(1) the prompt corrective action provisions are applicable at the Bank level only.

Management believes, as of December 31, 2022, that the Bank met all capital adequacy requirements to which it was subject at the time. The following table presents the Bank's capital amounts and ratios as of December 31, 2022 with the required minimum levels for capital adequacy purposes and minimum levels to be well capitalized (as defined) under the prompt corrective action regulations.

As of December 31, 2022:

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (To Risk-Weighted Assets)	\$ 242,168	12.296%	\$ 206,789	>= 10.500%	\$ 196,942	>= 10.00%
Common Equity Tier 1 Capital (To Risk-Weighted Assets)	217,858	11.062%	137,860	>= 7.000%	128,013	>= 6.50%
Tier 1 Capital (To Risk-Weighted Assets)	217,858	11.062%	167,401	>= 8.500%	157,554	>= 8.00%
Tier 1 Capital (To Average Assets)	217,858	8.120%	107,315	>= 4.000%	134,144	>= 5.00%

River Financial Corporation's principal source of funds for dividend payments and debt service is dividends received from River Bank. There are statutory limitations on the payment of dividends by River Bank to River Financial Corporation. As of September 30, 2023, the maximum amount the Bank could dividend to River Financial Corporation without prior regulatory authority approval was approximately \$62.7 million. In addition to dividend restrictions, federal statutes prohibit unsecured loans from banks to bank holding companies.

During the nine months ending September 30, 2023 there were 19,000 incentive stock options issued with a weighted average exercise price of \$33.59 per share. During the same period, there were 23,625 incentive stock options exercised at a weighted average exercise price of \$14.51 per share. During the same period, there were 600 incentive stock options forfeited at a weighted average exercise price of \$27.00 per share. A total of 338,454 incentive stock options were outstanding as of September 30, 2023 with a weighted average exercise price of \$25.25 per share and a weighted average remaining life of 5.28 years.

During the nine months ending September 30, 2023 there were 13,000 restricted stock grants issued with a weighted average exercise price of \$33.47 per share. During the same time period, there were 2,000 stock grants that vested with a weighted average exercise price of \$32.35. During the same time period, there were 1,400 stock grants forfeited with a weighted average exercise price of \$31.20. A total of 65,733 restricted stock grants remained nonvested as of September 30, 2023 with a weighted average exercise price of \$31.96 per share and a weighted average remaining life of 2.63 years.

Interest Sensitivity and Market Risk

Management monitors and manages the pricing and maturity of our assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on net interest income. The principal monitoring technique employed by the Bank is simulation analysis.

In simulation analysis, we review each asset and liability category and its projected behavior in various different interest rate environments. These projected behaviors are based on management's past experience and on current competitive environments, including the various environments in the different markets in which we compete. Using projected behavior and differing rate scenarios as inputs, the simulation analysis generates projections of net interest income. We also periodically verify the validity of this approach by comparing actual results with those that were projected in previous models.

Another technique used in interest rate management, but to a lesser degree than simulation analysis, is the measurement of the interest sensitivity "gap", which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets and liabilities, selling securities available for sale, replacing an asset or liability at maturity or by adjusting the interest rate during the life of an asset or liability.

We evaluate interest rate sensitivity risk and then formulate guidelines regarding asset generation and repricing, and sources and prices of off-balance sheet commitments in order to maintain interest sensitivity risk at levels deemed prudent by management. We use computer simulations to measure the net income effect of various rate scenarios. The modeling reflects interest rate changes and the related impact on net income over specified periods of time.

The following table illustrates our interest rate sensitivity at September 30, 2023, assuming the relevant assets and liabilities are collected and paid, respectively, based upon historical experience rather than their stated maturities (amounts in thousands).

	0-1 Mos	1-3 Mos	3-12 Mos	1-2 Yrs	2-3 Yrs	>3 Yrs	Total
Interest earning assets							
Loans	\$ 309,258	\$ 82,607	\$ 330,236	\$ 321,026	\$ 247,813	\$ 831,503	\$ 2,122,443
Securities	34,476	14,562	41,786	57,735	126,677	455,313	730,549
Certificates of deposit in banks	-	1,740	-	-	1,250	468	3,458
Cash balances in banks	49,189	-	-	-	-	-	49,189
Federal funds sold	58,000	-	-	-	-	-	58,000
Total interest earning assets	\$ 450,923	\$ 98,909	\$ 372,022	\$ 378,761	\$ 375,740	\$ 1,287,284	\$ 2,963,639
Interest bearing liabilities							
Interest bearing transaction accounts	\$ 259,621	\$ 15,094	\$ 67,923	\$ 90,564	\$ 63,235	\$ 229,386	\$ 725,823
Savings and money market accounts	388,831	15,634	70,356	93,808	91,635	216,201	876,465
Time deposits	77,608	87,328	275,755	71,905	8,616	8,854	530,066
Securities sold under agreements to repurchase	19,815	-	-	-	-	-	19,815
Federal Home Loan Bank advances	-	40,000	55,000	-	-	60,000	155,000
Subordinated debentures, net of loan costs	-	-	-	-	-	39,474	39,474
Total interest bearing liabilities	\$ 745,875	\$ 158,056	\$ 469,034	\$ 256,277	\$ 163,486	\$ 553,915	\$ 2,346,643
Interest sensitive gap							
Period gap	\$ (294,952)	\$ (59,147)	\$ (97,012)	\$ 122,484	\$ 212,254	\$ 733,369	\$ 616,996
Cumulative gap	\$ (294,952)	\$ (354,099)	\$ (451,111)	\$ (328,627)	\$ (116,373)	\$ 616,996	
Cumulative gap - Rate Sensitive Assets/ Rate Sensitive Liabilities	-10.0%	-11.9%	-15.2%	-11.1%	-3.9%	20.8%	

The Bank generally benefits from increasing market interest rates when it has an asset-sensitive gap (a positive number) and generally benefits from decreasing market interest rates when it is liability sensitive (a negative number). As shown in the table above, the Bank is liability sensitive on a cumulative basis throughout the one year time frame. The interest sensitivity analysis presents only a static view of the timing and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those are viewed by management as significantly less interest sensitive than market-based rates such as those paid on non-core deposits. For this and other reasons, management relies more upon the simulations analysis (as noted above) in managing interest rate risk. Net interest income may be impacted by other significant factors in a given interest rate environment, including changes in volume and mix of interest earning assets and interest bearing liabilities.

The Bank's earnings are dependent, to a large degree, on its net interest income, which is the difference between interest income earned on all interest earning assets, primarily loans and securities, and interest paid on all interest bearing liabilities, primarily deposits. Market risk is the risk of loss from adverse changes in market prices and interest rates. Our market risk arises primarily from inherent interest rate risk in our lending, investing and deposit gathering activities. We seek to reduce our exposure to market risk through actively monitoring and managing interest rate risk. Management relies on simulations analysis to evaluate the impact of varying levels of prevailing interest rates and the sensitivity of specific earning assets and interest bearing liabilities to changes in those prevailing rates. Simulation analysis consists of evaluating the impact on net interest income given changes from 400 basis points below the current prevailing rates to 400 basis points above current prevailing interest rates. Management makes certain assumptions as to the effect varying levels of interest rates have on certain interest earning assets and interest bearing liabilities, which assumptions consider both historical experience and consensus estimates of outside sources.

The following table illustrates the results of our simulation analysis to determine the extent to which market risk would affect net interest income for the next twelve months if prevailing interest rates increased or decreased by the specified amounts from current rates. As noted above, this model uses estimates and assumptions in asset and liability account rate reactions to changes in prevailing interest rates. However, to isolate the market risk inherent in the balance sheet, the model assumes that no growth in the balance sheet occurs during the projection period. This model also assumes an immediate and parallel shift in interest rates, which would result in no change in the shape or slope of the interest rate yield curve. Because of the inherent use of the estimates and assumptions in the simulation model to derive this market risk information, the actual results of the future impact of market risk on our net interest income may differ from that found in the table. Given the current level of prevailing interest rates, management believes prevailing market rates falling 300 basis points and 400 basis points are not reasonable assumptions. All other simulated prevailing interest rates changes modeled indicate a level of sensitivity of the Bank's net interest income to those changes that is acceptable to management and within established Bank policy limits as of both dates shown.

	Impact on net interest income	
	As of September 30, 2023	As of December 31, 2022
Change in prevailing rates:		
+ 400 basis points	(14.29)%	(14.25)%
+ 300 basis points	(10.75)%	(10.55)%
+ 200 basis points	(7.08)%	(6.96)%
+ 100 basis points	(3.51)%	(3.49)%
+ 0 basis points	-	-
- 100 basis points	3.24%	2.68%
- 200 basis points	6.33%	4.58%
- 300 basis points	9.29%	2.00%
- 400 basis points	12.33%	(3.21)%

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item is not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company has carried out an evaluation under the supervision and with participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even the effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2023, the Company's disclosure controls and procedures are effective in ensuring that material information relating to the Company required to be disclosed in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods and is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the nine months ended September 30, 2023 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time the Company is a party to legal proceedings. At the present time the Company is not part of any proceeding which the Company deems to be material.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, “Risk Factors,” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 that could materially affect the Company’s business, financial condition or future results as well as those in the Company’s Report on Form 10-Q for the quarter ended September 30, 2023. The risks described in the Company’s Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company’s business, financial condition and/or operating results.

The risk factors in our Annual Report on Form 10-K for the year ended December 31, 2022 should be reviewed, especially in the context of the risk factors set forth below.

Possible Effects of the Continuing COVID-19 Pandemic

The current COVID-19 pandemic could result in negative effects on our financial condition and results of operations.

As a result of the COVID-19 pandemic, we have instituted procedures, consistent with federal, state and local government guidelines, to institute social distancing among employees and customers, and encourage employees to work from home when possible. A majority of employees are no longer working from home. We believe these measures have been undertaken to date with minimal negative effects on our operations and have been well received by employees and customers. We believe our daily operations and services to customers have not been materially interrupted in an adverse way, but we cannot be certain of the long-term effects of such procedures.

Because of the potential negative effects of the COVID-19 pandemic on the economy, including rising unemployment and closings of non-essential businesses during the pandemic, we may experience an adverse effect on our loans.

Rising unemployment, the closing, even if temporary, of non-essential businesses, and the overall negative effect on the economy could result in the inability of some of our customers to meet their loan obligations to our Bank. Loan modifications and payment deferrals provide our borrowers with temporary relief, but such relief may be insufficient, depending on the length and severity of the COVID-19 pandemic and its effects on the economy. In addition to loan deferrals and modifications, we participated in certain government programs designed to bolster the economy during the pandemic, such as the PPP, which was intended to fund borrowers’ payrolls and certain operating expenses, not to support existing borrowers’ loans. Our customers’ participation in other government programs also may stabilize their cash flows during any continuation of the pandemic, but may not prevent significant loan delinquencies and losses. In addition, we have loans which are not covered by any government guarantee protection program. Thus, we could experience various impairments of such loans, including a delay in payments of principal and interest, the inability of borrowers to pay the loans in full, the loss in value of collateral securing such loans, and the inability to sell such collateral at a reasonable price if the collateral is taken in foreclosure. All of the foregoing could have adverse consequences on our income and eventually on our capital.

Although we are participating in certain government programs to assist customers and borrowers, we may nevertheless incur long-term adverse results.

We have received requests from our borrowers for loan and lease deferrals and modifications including the deferral of principal payments or the deferral of principal and interest payments for terms generally 90-180 days. Requests are evaluated individually and approved modifications are based on the unique circumstances of each borrower. We are committed to working with our clients to allow time to work through the challenges of this pandemic. In keeping with guidance from regulators, we are also working with COVID-19 affected customers to waive fees from a variety of sources, such as but not limited to, insufficient funds and overdraft fees, ATM fees, account maintenance fees, etc. These reductions in fees are thought, at this time, to be temporary in conjunction with the length of the expected COVID-19 related economic crises. We are unable to project the materiality of such an impact, but recognize the breadth of the economic impact is likely to impact our fee income in future periods. Thus, it is uncertain what future impact these measures related to COVID-19 difficulties will have on our financial condition, results of operations and reserve for loan and lease losses.

As a participating lender in the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP), River Financial and River Bank are subject to additional risks of litigation from the Bank's customers or other parties regarding the Bank's processing of loans for the PPP and risks that the SBA may not fund some PPP loan guaranties

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted, which included a loan program administered through the SBA referred to as the PPP. Under the PPP, small businesses and other entities and individuals could apply for unsecured, low-interest rate loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. Borrowers are eligible for up to 100% forgiveness on PPP loans if certain conditions are met. The PPP loans are 100% guaranteed by the SBA. The Bank participated as a lender in the PPP. The PPP opened on April 3, 2020. The PPP was launched by SBA and the US Department of Treasury in an expedient timeframe and because of the short timeframe between the passing of the CARES Act and the opening of the PPP, there was ambiguity in the laws, rules and guidance regarding the operation of the PPP, which exposes us to risks relating to noncompliance with the PPP. Since the opening of the PPP, several other larger banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP. River Financial and River Bank may be exposed to the risk of similar litigation, from both customers and non-customers that approached the Bank regarding PPP loans, regarding its process and procedures used in processing applications for the PPP. If any such litigation is filed against us and is not resolved in a favorable manner, it may result in significant financial liability or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs or reputational damage caused by PPP-related litigation could have a material adverse effect on our business, financial condition and results of operations. The Bank also has credit risk on PPP loans if a determination is made by the SBA that there is a material deficiency in the manner in which the loan was originated, funded, or serviced by the Bank. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a material deficiency in the manner in which the PPP loan was originated, funded, or serviced by the Bank, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Bank. There is also a risk that not all PPP loans will be forgiven and any unforgiven amount will remain on the Bank's balance sheet preventing such funds from being redeployed into higher-earning assets.

The continuation of the pandemic could have longer-term and unforeseen results.

The continuation of the COVID-19 pandemic, or a resurgence of the pandemic, could have longer adverse effects on our capital, income and relationships with customers. There could be longer term effects which are unforeseen at the present time.

The COVID-19 pandemic could adversely affect our growth plans.

The pandemic's effect on the economy could deter our growth plans. We have always planned upon and anticipated solid growth organically, including the opening of new branches when opportunities arise along with the development of further business opportunities where we currently have branches. In addition, we have grown by making select acquisitions of other banks, and we have planned to be alert for future acquisition opportunities. The COVID-19 pandemic, its adverse effects on the economy, both short-term and long-term, and uncertainty by the public in general of the stability of the economy could hinder such growth plans.

The COVID-19 pandemic could adversely affect us in other areas where we may be uncertain of the effects.

In addition to the risks noted above, the COVID-19 pandemic could affect us in a number of other areas of our operations with consequences at the present time of which we cannot be certain. These include: the effectiveness, or lack thereof, of the current COVID-19 vaccination efforts; the general economic stability of our geographic markets; a change in demand for financial products in general; fewer financial resources that are generally available to small and medium size business; changes in government monetary policy; interest rate fluctuations; the need for additional increases in our allowance for credit losses; a reduction in values set forth in appraisals that provide back-up for loans; stress on our liquidity caused by a reduction in deposits as customers need additional cash for their own liquidity needs; increased cyber and payment fraud risk; and increased oversight on our internal controls and procedures to ensure that we are taking necessary steps to manage any increased risks associated with the COVID-19 pandemic.

The Federal Reserve has implemented significant economic strategies that have affected interest rates, inflation, asset values, and the shape of the yield curve.

During 2022, the Federal Reserve transitioned to a tightening policy. It raised short term rates significantly and rapidly throughout the year. Those actions triggered a significant decline in the values of most categories of U.S. stocks and bonds; significantly raised recessionary expectations for the U.S.; and inverted the yield curve in the U.S. for much of the last two quarters of 2022. Effects on the yield curve often are most pronounced at the short end of the curve, which is of particular importance to us and other banks. Among other things, easing strategies are intended to lower interest rates, expand the money supply, and stimulate economic activity, while tightening strategies are intended to increase interest rates, discourage borrowing, tighten the money supply, and restrain economic activity. However, in 2022, short term rates rose faster than long term rates to the point that the yield curve inverted for much of the final two quarters of 2022. This sort of phenomenon—where short term rates rise more strongly and rapidly than long-term rates can follow—is relatively uncommon. It is unclear when long term rates are likely to catch up. Many external factors may interfere with the effects of these plans or cause them to be changed, sometimes quickly. Such factors include significant economic trends or events. For 2023, the Federal Reserve has not yet indicated when it will stop, or at least pause, raising short term rates, although the rate of increases has slowed. These economic strategies have had, and will continue to have, a significant impact on our business and on many of our clients. As exemplified by the March 2023 bank failures in the U.S., such strategies also can affect the financial systems in ways that may be difficult to predict.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In September 2023, the company sold 19,989 shares of its common stock for a cash total of approximately \$680 thousand to its employee stock ownership plan. The Company relied upon exemptions from registration under SEC Rule 701 and Rule 147A.

On September 14, 2023, the Company issued 968,904 shares of its common stock in a capital raise under SEC Rule 506(b). The shares were sold at \$34 per share and \$32,942,736 was raised. The shares were sold directly by the Company and were sold primarily to accredited investors who were already shareholders of the Company or customers or persons with which the Company had relationships.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Certificate of Incorporation of River Financial Corporation included as Exhibit 3.1 in the River Financial Corporation Form 8-K filed May 18, 2023 and incorporated herein by reference.
3.2	Bylaws of River Financial Corporation included as Exhibit 3.2 in the River Financial Corporation 8-K filed May 18, 2023 and incorporated herein by reference.
4.1	Article IV and Article V of the Certificates of Incorporation filed at Exhibit 3.1 to the Registrants' Form 8-K filed May 18, 2023, and Article II and Article VI of the Bylaws included as Exhibit 3.2 of the Registrants' Form 8-K filed May 18, 2023, and incorporated herein by reference.
10.1	River Financial 2006 Stock Compensation Plan filed as Exhibit 10.1 to the Registrant's Registration Statement on Form S-4, registration no. 333-205986 filed on July 31, 2015 and incorporated herein by reference.
10.2	River Financial Change in Control Agreement for Jimmy Stubbs filed as Exhibit 10.2 to the Registrant's Registration Statement on Form S-4, registration no. 333-205986 filed on July 31, 2015 and incorporated herein by reference.
10.3	River Financial Change in Control Agreement for Kenneth H. Givens filed as Exhibit 10.3 to the Registrant's Registration Statement on Form S-4, registration no. 333-205986 filed on July 31, 2015 and incorporated herein by reference.
10.4	River Financial Change in Control Agreement for Joel K. Winslett filed as Exhibit 10.4 to the Registrant's Registration Statement on Form S-4, registration no. 333-205986 filed on July 31, 2015 and incorporated herein by reference.
10.5	River Financial Change in Control Agreement for Ray Smith filed as Exhibit 10.5 to the Registrant's Registration Statement on Form S-4, registration no. 333-205986 filed on July 31, 2015 and incorporated herein by reference.
10.6	River Financial Change in Control Agreement for Boles Pegues filed as Exhibit 10.6 to the Registrant's Registration Statement on Form S-4, registration no. 333-205986 filed on July 31, 2015 and incorporated herein by reference.
10.7	River Financial Employment Term Sheet for Ray Smith filed as Exhibit 10.7 to the Registrant's Registration Statement on Form S-4, registration no. 333-205986 filed on July 31, 2015 and incorporated herein by reference.
10.8	River Financial Employment Term Sheet for Boles Pegues filed as Exhibit 10.8 to the Registrant's Registration Statement on Form S-4, registration no. 333-205986 filed on July 31, 2015 and incorporated herein by reference.
10.9	River Bank & Trust Form of Warrant Agreement, assumed by River Financial filed as Exhibit 10.9 to the Registrant's Registration statement on Form S-4, registration no. 333-205986 filed on July 31, 2015 and incorporated herein by reference.
10.10	River Financial 2015 Incentive Stock Compensation Plan filed as Annex E to the Registrant's Registration Statement on Form S-4, registration no. 333-205986 filed on July 31, 2015 and incorporated herein by reference.
10.11	Loan Agreement between River Financial Corporation and CenterState Bank (now SouthState Bank) filed as Exhibit 10.1 to the Registrant's Form 8-K/A filed November 2, 2018 and incorporated herein by reference.
10.12	Form of Subordinated Note Purchase Agreement, dated March 9, 2021, between River Financial Corporation and certain accredited investors, included as Exhibit 10.1 in the River Financial Corporation Form 8-K, filed on March 10, 2021 and incorporated herein by reference.
10.13	Loan and Security Agreement, dated August 9, 2021, between River Financial Corporation and ServisFirst Bank, included as Exhibit 10.13 in the River Financial Corporation Form 10-K, filed on March 15, 2022 and incorporated herein by reference.
31.1**	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.

- 31.2** Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
- 32 ** Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.
- 101.INS Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Schedules omitted. Registrant agrees to furnish a copy of any omitted schedule to the SEC upon request.

** Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RIVER FINANCIAL CORPORATION

Date: November 7, 2023

By: /s/ James M. Stubbs
James M. Stubbs
Chief Executive Officer
(principal executive officer)

Date: November 7, 2023

By: /s/ Jason B. Davis
Jason B. Davis
Chief Financial Officer

CERTIFICATION

I, James M. Stubbs, certify that:

1. I have reviewed this report on Form 10-Q of River Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this period report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

RIVER FINANCIAL CORPORATION

November 7, 2023

/s/ James M. Stubbs
James M. Stubbs
Chief Executive Officer
(principal executive officer)

CERTIFICATION

I, Jason B. Davis, certify that:

1. I have reviewed this report on Form 10-Q of River Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this period report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

RIVER FINANCIAL CORPORATION

November 7, 2023

/s/ Jason B. Davis

Jason B. Davis

Chief Financial Officer

CERTIFICATIONS OF CEO AND CFO PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT

CERTIFICATES PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of River Financial Corporation, an Alabama corporation (the “Company”), on Form 10-Q for the period ending September 30, 2023, as filed with the Securities and Exchange Commission (the “Report”), each of James M. Stubbs, Chief Executive Officer of the Company, and Jason B. Davis, Chief Financial Officer of the Company, do hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

RIVER FINANCIAL CORPORATION

/s/ James M. Stubbs

James M. Stubbs
Chief Executive Officer
(principal executive officer)
Date: November 7, 2023

RIVER FINANCIAL CORPORATION

/s/ Jason B. Davis

Jason B. Davis
Chief Financial Officer
(principal financial officer and accounting officer)
Date: November 7, 2023

A signed original of this written statement required by Section 906 has been provided to River Financial Corporation and will be retained by River Financial Corporation and furnished to the Securities and Exchange Commission or its staff upon request.