
**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, 2016

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)

Registrant's telephone number, including area code: (334) 290-1012

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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"/> (Do not check if a small reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>

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 October 1, 2016, the registrant had 5,072,001 shares of common stock, \$1.00 par value per share, outstanding.

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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. The forward-looking statements contained in this annual 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 annual report and not place undue reliance on these forward-looking statements. Factors that might cause such differences include, but are not limited to:

- 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;
- Changes in asset quality and credit risk of our bank;
- Inflation;
- Customer acceptance of the 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, or changes in such framework, could adversely affect our operating results;
- The interest rate environment may compress margins and adversely affect net interest income; and
- Competition from other financial services companies in our markets could adversely affect operations.

You should also consider carefully the risk factors discussed 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, 2016 Unaudited	December 31, 2015 Audited
<u>Assets</u>		
Cash and due from banks	\$ 14,669	\$ 12,415
Interest-bearing deposits in banks	14,172	18,580
Federal funds sold	2,301	7
Cash and cash equivalents	31,142	31,002
Certificates of deposit in banks	5,463	6,070
Securities available-for-sale	171,717	144,721
Loans held for sale	6,045	2,771
Loans, net of deferred fees and discounts	499,813	479,271
Less allowance for loan losses	(4,289)	(3,827)
Net loans	495,524	475,444
Premises and equipment, net	21,128	20,553
Accrued interest receivable	2,109	2,234
Bank owned life insurance	15,054	14,731
Foreclosed assets	1,184	1,949
Deferred income taxes	1,601	2,445
Core deposit intangible	2,272	2,763
Goodwill	10,050	9,410
Other assets	3,313	3,941
Total assets	<u>\$ 766,602</u>	<u>\$ 718,034</u>
<u>Liabilities and Shareholders' Equity</u>		
Noninterest-bearing deposits	\$ 155,328	\$ 124,345
Interest-bearing deposits	506,006	486,054
Total deposits	661,334	610,399
Securities sold under agreements to repurchase	10,053	10,166
Federal Home Loan Bank advances	2,000	10,500
Note payable	6,696	-
Payable to Keystone shareholders	-	7,274
Accrued interest payable and other liabilities	3,015	4,771
Total liabilities	683,098	643,110
Common stock (\$1 par value; 10,000,000 shares authorized; 5,090,901 and 4,876,104 shares issued; 5,072,001 and 4,809,594 shares outstanding, respectively)	5,091	4,876
Additional paid in capital	64,639	62,493
Retained earnings	13,049	7,941
Accumulated other comprehensive income	1,051	571
Treasury stock at cost (18,900 and 66,510 shares, respectively)	(326)	(957)
Total stockholders' equity	83,504	74,924
Total liabilities and stockholders' equity	<u>\$ 766,602</u>	<u>\$ 718,034</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,	
	2016	2015	2016	2015
Interest income:				
Loans, including fees	\$ 7,016	\$ 3,609	\$ 20,283	\$ 10,333
Taxable securities	432	338	1,222	1,195
Nontaxable securities	279	184	822	543
Federal funds sold	15	1	29	2
Other interest income	49	2	147	12
Total interest income	<u>7,791</u>	<u>4,134</u>	<u>22,503</u>	<u>12,085</u>
Interest expense:				
Deposits	521	291	1,537	873
Short term borrowings	4	3	11	14
Federal Home Loan Bank advances	5	11	35	31
Note payable	62	-	190	-
Total interest expense	<u>592</u>	<u>305</u>	<u>1,773</u>	<u>918</u>
Net interest income	7,199	3,829	20,730	11,167
Provision for loan losses	215	139	662	417
Net interest income after provision for loan losses	<u>6,984</u>	<u>3,690</u>	<u>20,068</u>	<u>10,750</u>
Noninterest income:				
Service charges and fees	633	467	1,826	1,407
Investment brokerage revenue	48	25	182	175
Mortgage operations	437	55	982	173
Bank owned life insurance income	109	77	323	229
Net gain on sale of investment securities	-	11	14	24
Other noninterest income	112	83	257	208
Total noninterest income	<u>1,339</u>	<u>718</u>	<u>3,584</u>	<u>2,216</u>
Noninterest expense:				
Salaries and employee benefits	2,876	1,568	8,089	4,668
Occupancy expenses	387	240	1,134	679
Equipment rentals, depreciation, and maintenance	111	124	580	358
Advertising and business development	70	126	274	371
Data processing	410	307	1,325	836
Foreclosed assets, net	(76)	15	23	119
Federal deposit insurance and other regulatory assessments	113	79	335	237
Legal and other professional services	196	173	624	537
Other operating expense	1,006	477	2,718	1,294
Total noninterest expense	<u>5,093</u>	<u>3,109</u>	<u>15,102</u>	<u>9,099</u>
Income before income taxes	3,230	1,299	8,550	3,867
Provision for income taxes	1,014	375	2,630	1,124
Net income	<u>\$ 2,216</u>	<u>\$ 924</u>	<u>\$ 5,920</u>	<u>\$ 2,743</u>
Basic net earnings per common share				
Basic net earnings per common share	\$ 0.44	\$ 0.31	\$ 1.18	\$ 0.92
Diluted net earnings per common share				
Diluted net earnings per common share	\$ 0.43	\$ 0.30	\$ 1.17	\$ 0.88
Dividends per common share				
Dividends per common share	\$ -	\$ -	\$ 0.16	\$ 0.14

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 2,216	\$ 924	\$ 5,920	\$ 2,743
Other comprehensive income (loss), net of tax:				
Investment securities available-for-sale:				
Net unrealized gains (losses)	(270)	749	774	77
Reclassification adjustments for net gains realized in net income	-	(11)	(14)	(24)
Income tax effect	101	(288)	(280)	(21)
Other comprehensive income (loss)	(169)	450	480	32
Comprehensive income	<u>\$ 2,047</u>	<u>\$ 1,374</u>	<u>\$ 6,400</u>	<u>\$ 2,775</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 Income	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2015	\$ 4,876	\$ 62,493	\$ 7,941	\$ 571	\$ (957)	\$ 74,924
Net income	—	—	5,920	—	—	5,920
Other comprehensive income	—	—	—	480	—	480
Issuance of common stock (8,013 shares)	8	123	—	—	—	131
Exercise of stock options and warrants (206,784 shares)	207	1,342	—	—	957	2,506
Purchase of treasury stock (20,525 shares)	—	—	—	—	(354)	(354)
Sale of treasury shares (1,625 shares)	—	(2)	—	—	28	26
Dividends declared (\$0.16 per share)	—	—	(812)	—	—	(812)
Purchase accounting adjustment - Keystone merger	—	640	—	—	—	640
Stock compensation expense	—	43	—	—	—	43
Balance at September 30, 2016	<u>\$ 5,091</u>	<u>\$ 64,639</u>	<u>\$ 13,049</u>	<u>\$ 1,051</u>	<u>\$ (326)</u>	<u>\$ 83,504</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,	
	2016	2015
Cash Flows From (Used For) Operating Activities:		
Net Income	\$ 5,920	\$ 2,743
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	662	417
Provision for losses on foreclosed assets	135	138
Amortization of securities available-for-sale	1,251	1,050
Accretion of securities available-for-sale	(24)	(2)
Realized net gain on securities available-for-sale	(14)	(24)
Accretion of discount on acquired loans	(1,744)	-
Amortization of deferred loan fees	(790)	(184)
Amortization of core deposit intangible asset	491	-
Stock compensation expense	43	17
Bank owned life insurance income	(323)	(229)
Depreciation and amortization of premises and equipment	630	388
Loss (gain) on sale of foreclosed assets	(133)	(55)
Deferred income tax (benefit)	563	(167)
(Increase) decrease in operating assets and (Decrease) increase in operating liabilities:		
Loans held-for-sale	(3,232)	-
Accrued interest receivable	125	137
Other assets	237	(223)
Accrued interest payable and other liabilities	(1,591)	396
Net cash from operating activities	<u>2,206</u>	<u>4,402</u>
Cash Flows From (Used For) Investing Activities:		
Maturity of certificate of deposit	-	1,992
Activity in securities available-for-sale:		
Sales	10,115	11,748
Maturities, payments, calls	18,391	21,957
Purchases	(55,347)	(6,946)
Loan principal originations, net	(18,501)	(40,057)
Proceeds from sale of foreclosed assets	1,055	1,239
Payment to Keystone shareholders	(7,274)	-
Purchases of premises and equipment	(1,204)	(1,665)
Sale (purchase) of restricted equity securities, net	349	11
Net cash used for investing activities	<u>(52,416)</u>	<u>(11,721)</u>
Cash Flows From (Used For) Financing Activities:		
Net increase (decrease) in deposits	50,770	11,044
Net decrease in securities sold under agreements to repurchase	(113)	1,078
Proceeds from Federal Home Loan Bank advances	6,750	-
Repayment of Federal Home Loan Bank advances	(15,250)	-
Proceeds from issuance of note payable	7,500	-
Repayment of note payable	(804)	-
Proceeds from issuance of common stock	131	-
Proceeds from exercise of common stock options and warrants	2,506	51
Purchase of treasury stock	(354)	(339)
Sale of treasury stock	26	90
Cash dividends	(812)	(419)
Net cash from (used for) financing activities	<u>50,350</u>	<u>11,505</u>
Net Change In Cash And Cash Equivalents	<u>140</u>	<u>4,186</u>
Cash and Cash Equivalents At Beginning Of Period	<u>31,002</u>	<u>25,369</u>
Cash and Cash Equivalents At End Of Period	<u>\$ 31,142</u>	<u>\$ 29,555</u>
Supplemental Disclosures Of Cash Flows Information:		
Cash Payments For:		
Interest paid to depositors	\$ 1,727	\$ 885
Interest paid on borrowings	\$ 237	\$ 45
Income taxes	\$ 1,825	\$ 1,395

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 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.

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 position, statements of income, statements of comprehensive income, statements of stockholders’ equity and statements of cash flows for the periods presented, and all such adjustments are of a normal recurring nature. All material intercompany transactions are eliminated. 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 according to 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, 2015, which are contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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 River may undertake in the future. Estimates are used in accounting for, among other items, the allowance for loan 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 River include the determination of the allowance for loan losses, investment securities impairment, assessment of deferred tax assets and liabilities, and business combination related fair value estimates, 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.

Note 2 – Reclassifications

Certain prior period amounts have been reclassified to conform to the presentation used in 2016. 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.

The reconciliation of the components of the basic and diluted earnings per share is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net earnings available to common shareholders	\$ 2,216	\$ 924	\$ 5,920	\$ 2,743
Weighted average common shares outstanding	5,078,186	2,990,738	5,007,394	2,992,056
Dilutive effect of stock options	36,069	58,569	56,315	58,753
Dilutive effect of stock warrants	3,351	50,625	3,204	50,625
Diluted common shares	5,117,606	3,099,932	5,066,913	3,101,434
Basic earnings per common share	\$ 0.44	\$ 0.31	\$ 1.18	\$ 0.92
Diluted earnings per common share	\$ 0.43	\$ 0.30	\$ 1.17	\$ 0.88

Note 4 – Investment Securities

Securities available-for-sale at September 30, 2016 and December 31, 2015 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016:				
Securities available-for-sale:				
Residential mortgage-backed	\$ 94,236	\$ 571	\$ (309)	\$ 94,498
U.S. govt. sponsored enterprises	16,310	261	(13)	16,558
State, county, and municipal	57,439	1,280	(112)	58,607
Corporate debt obligations	2,066	8	(20)	2,054
Totals	<u>\$ 170,051</u>	<u>\$ 2,120</u>	<u>\$ (454)</u>	<u>\$ 171,717</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015:				
Securities available-for-sale:				
Residential mortgage-backed	\$ 60,756	\$ 224	\$ (295)	\$ 60,685
U.S. govt. sponsored enterprises	22,985	114	(146)	22,953
State, county, and municipal	58,018	1,011	(6)	59,023
Corporate debt obligations	2,057	3	—	2,060
Totals	<u>\$ 143,816</u>	<u>\$ 1,352</u>	<u>\$ (447)</u>	<u>\$ 144,721</u>

Management evaluates securities for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Details concerning investment securities with unrealized losses as of September 30, 2016 and December 31, 2015 are as follows:

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2016:						
Securities available-for-sale:						
Residential mortgage-backed	\$ 46,665	\$ 295	\$ 1,367	\$ 14	\$ 48,032	\$ 309
U.S. govt. sponsored enterprises	—	—	1,514	13	1,514	13
State, county & municipal	17,556	112	-	-	17,556	112
Corporate debt obligations	1,230	20	-	-	1,230	20
Totals	<u>\$ 65,451</u>	<u>\$ 427</u>	<u>\$ 2,881</u>	<u>\$ 27</u>	<u>\$ 68,332</u>	<u>\$ 454</u>

December 31, 2015:						
Securities available-for-sale:						
Residential mortgage-backed	\$ 20,841	\$ 110	\$ 10,937	\$ 185	\$ 31,778	\$ 295
U.S. govt. sponsored enterprises	9,489	13	4,820	133	14,309	146
State, county & municipal	-	-	557	6	557	6
Totals	<u>\$ 30,330</u>	<u>\$ 123</u>	<u>\$ 16,314</u>	<u>\$ 324</u>	<u>\$ 46,644</u>	<u>\$ 447</u>

As of September 30, 2016, management does not consider securities with unrealized losses to be other-than-temporarily impaired. The unrealized losses in each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase. River has the ability and intent to hold its securities for a period of time sufficient to allow for a recovery in fair value. There were no other-than-temporary impairments charged to earnings during the nine months ended September 30, 2016 or 2015. The Company owned a total of 81 securities with a net unrealized loss of \$454 at September 30, 2016. As of September 30, 2016 and December 31, 2015 the Company had pledged securities of \$42,598 and \$35,563 respectively.

During the nine months ended September 30, 2016, River sold investment securities for proceeds of \$10,115 and realized gains of \$14. During the nine months ended September 30, 2015, investment securities were sold for proceeds of \$11,748 and realized gains of \$24.

The amortized cost and estimated fair value of securities available-for-sale at September 30, 2016, 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.

	Amortized Cost	Fair Value
	(In Thousands)	
Securities available-for-sale		
Less than 1 year	\$ 4,057	\$ 4,056
1 to 5 years	22,875	23,066
5 to 10 years	14,194	14,293
After 10 years	34,689	35,804
	75,815	77,219
Residential mortgage-backed securities	94,236	94,498
Totals	<u>\$ 170,051</u>	<u>\$ 171,717</u>

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

Major classifications of loans at September 30, 2016 and December 31, 2015 are summarized as follows:

	September 30, 2016		December 31, 2015	
	Amount	% of Total	Amount	% of Total
Residential real estate:				
Closed-end 1-4 family - first lien	\$ 109,213	22.0%	\$ 111,476	23.4%
Closed-end 1-4 family - junior lien	5,079	1.0%	5,246	1.1%
Multi-family	17,119	3.5%	17,553	3.7%
Total residential real estate	131,411	26.5%	134,275	28.2%
Commercial real estate:				
Nonfarm nonresidential	155,836	31.5%	149,597	31.5%
Farmland	13,017	2.6%	15,456	3.3%
Total commercial real estate	168,853	34.1%	165,053	34.8%
Construction and land development:				
Residential	21,872	4.4%	21,302	4.5%
Other	39,465	8.0%	34,459	7.2%
Total construction and land development	61,337	12.4%	55,761	11.7%
Home equity lines of credit	32,500	6.6%	32,969	6.9%
Commercial loans:				
Other commercial loans	81,739	16.5%	71,247	15.0%
Agricultural	899	0.2%	946	0.2%
State, county, and municipal loans	8,340	1.7%	7,414	1.6%
Total commercial loans	90,978	18.4%	79,607	16.8%
Consumer loans				
Total gross loans	506,051	102.2%	487,222	102.5%
Allowance for loan losses	(4,289)	-0.9%	(3,827)	-0.8%
Net deferred loan fees and discounts	(6,238)	-1.3%	(7,951)	-1.7%
Net loans	<u>\$ 495,524</u>	100.0%	<u>\$ 475,444</u>	100.0%

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 following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method for the periods indicated:

Allowance for Loan Losses	Real Estate Mortgage Loans			Home Equity Lines		Consumer	Total
	Residential	Commercial	Construction and Land Development	Of Credit	Commercial		
Balance - December 31, 2015	\$ 368	\$ 1,302	\$ 569	\$ 150	\$ 1,250	\$ 188	\$ 3,827
Provision for loan losses	206	(21)	233	23	154	67	662
Loan charge-offs	—	(15)	—	(10)	(241)	(36)	(302)
Loan recoveries	5	—	10	16	52	19	102
Balance - September 30, 2016	<u>\$ 579</u>	<u>\$ 1,266</u>	<u>\$ 812</u>	<u>\$ 179</u>	<u>\$ 1,215</u>	<u>\$ 238</u>	<u>\$ 4,289</u>
Ending balance:							
Individually evaluated for impairment	\$ 54	\$ 403	\$ —	\$ —	\$ 732	\$ —	\$ 1,189
Collectively evaluated for impairment	\$ 525	\$ 863	\$ 812	\$ 179	\$ 483	\$ 238	\$ 3,100
Total	<u>\$ 579</u>	<u>\$ 1,266</u>	<u>\$ 812</u>	<u>\$ 179</u>	<u>\$ 1,215</u>	<u>\$ 238</u>	<u>\$ 4,289</u>

Loans:							
Individually evaluated for impairment	\$ 1,030	\$ 4,093	\$ 50	\$ 100	\$ 816	\$ —	\$ 6,089
Collectively evaluated for impairment	\$ 130,381	\$ 164,760	\$ 61,287	\$ 32,400	\$ 90,162	\$ 20,972	\$ 499,962
Total	<u>\$ 131,411</u>	<u>\$ 168,853</u>	<u>\$ 61,337</u>	<u>\$ 32,500</u>	<u>\$ 90,978</u>	<u>\$ 20,972</u>	<u>\$ 506,051</u>

Allowance for Loan Losses	Real Estate Mortgage Loans			Home Equity Lines		Consumer	Total
	Residential	Commercial	Construction and Land Development	Of Credit	Commercial		
Balance - December 31, 2014	\$ 304	\$ 1,267	\$ 627	\$ 437	\$ 652	\$ 491	\$ 3,778
Provision for loan losses	24	260	(267)	48	604	(252)	417
Loan charge-offs	—	—	—	(333)	(10)	(77)	(420)
Loan recoveries	—	—	189	7	36	30	262
Balance - September 30, 2015	<u>\$ 328</u>	<u>\$ 1,527</u>	<u>\$ 549</u>	<u>\$ 159</u>	<u>\$ 1,282</u>	<u>\$ 192</u>	<u>\$ 4,037</u>
Ending balance:							
Individually evaluated for impairment	\$ —	\$ 758	\$ 32	\$ —	\$ 814	\$ —	\$ 1,604
Collectively evaluated for impairment	\$ 328	\$ 769	\$ 517	\$ 159	\$ 468	\$ 192	\$ 2,433
Total	<u>\$ 328</u>	<u>\$ 1,527</u>	<u>\$ 549</u>	<u>\$ 159</u>	<u>\$ 1,282</u>	<u>\$ 192</u>	<u>\$ 4,037</u>

Loans:							
Individually evaluated for impairment	\$ 1,155	\$ 3,162	\$ 87	\$ 100	\$ 1,476	\$ —	\$ 5,980
Collectively evaluated for impairment	\$ 64,490	\$ 107,335	\$ 33,089	\$ 18,181	\$ 65,575	\$ 10,493	\$ 299,163
Total	<u>\$ 65,645</u>	<u>\$ 110,497</u>	<u>\$ 33,176</u>	<u>\$ 18,281</u>	<u>\$ 67,051</u>	<u>\$ 10,493</u>	<u>\$ 305,143</u>

Among other loans the Bank individually evaluates for impairment all nonaccrual loans and troubled debt restructured loans. A loan is considered impaired when, based on current events and circumstances it is probable that all amounts due according to the contractual terms of the loan will not be collected. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Management may also elect to apply an additional collective reserve to groups of impaired loans based on current economic or market factors. Interest payments received on impaired loans are generally applied as a reduction of the outstanding principal balance.

The following table presents impaired loans by class of loans as of September 30, 2016.

	Total Impaired Loans	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Nonaccruing Impaired Loans				
Mortgage loans on real estate:				
Residential	\$ 128	\$ -	\$ 128	\$ 54
Commercial real estate	1,540	706	834	38
Construction and land development	—	—	—	—
Total mortgage loans on real estate	1,668	706	962	92
Equity lines of credit	—	—	—	—
Commercial loans	408	—	408	321
Consumer loans	—	—	—	—
Total Loans	\$ 2,076	\$ 706	\$ 1,370	\$ 413

	Total Impaired Loans	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Accruing Impaired Loans				
Mortgage loans on real estate:				
Residential	\$ 902	\$ 902	\$ -	\$ -
Commercial real estate	2,553	-	2,553	365
Construction and land development	50	50	—	—
Total mortgage loans on real estate	3,505	952	2,553	365
Equity lines of credit	100	100	—	—
Commercial loans	408	—	408	411
Consumer loans	—	—	—	—
Total Loans	\$ 4,013	\$ 1,052	\$ 2,961	\$ 776

	Total Impaired Loans	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Total Impaired Loans				
Mortgage loans on real estate:				
Residential	\$ 1,030	\$ 902	\$ 128	\$ 54
Commercial real estate	4,093	706	3,387	403
Construction and land development	50	50	—	—
Total mortgage loans on real estate	5,173	1,658	3,515	457
Equity lines of credit	100	100	—	—
Commercial loans	816	—	816	732
Consumer loans	—	—	—	—
Total Loans	\$ 6,089	\$ 1,758	\$ 4,331	\$ 1,189

The following table presents impaired loans by class of loans as of December 31, 2015.

	Total Impaired Loans	Impaired Loans		Allowance for Loan Losses
		With No Allowance	With Allowance	
Nonaccruing Impaired Loans				
Mortgage loans on real estate:				
Residential	\$ 375	\$ 375	\$ -	\$ -
Commercial real estate	1,415	1,050	365	188
Construction and land development	—	—	—	—
Total mortgage loans on real estate	1,790	1,425	365	188
Equity lines of credit	—	—	—	—
Commercial loans	1,021	—	1,021	491
Consumer loans	—	—	—	—
Total Loans	\$ 2,811	\$ 1,425	\$ 1,386	\$ 679

	Total Impaired Loans	Impaired Loans		Allowance for Loan Losses
		With No Allowance	With Allowance	
Accruing Impaired Loans				
Mortgage loans on real estate:				
Residential	\$ 1,069	\$ 1,069	\$ -	\$ -
Commercial real estate	827	—	827	304
Construction and land development	100	—	100	45
Total mortgage loans on real estate	1,996	1,069	927	349
Equity lines of credit	100	100	—	—
Commercial loans	422	—	422	285
Consumer loans	—	—	—	—
Total Loans	\$ 2,518	\$ 1,169	\$ 1,349	\$ 634

	Total Impaired Loans	Impaired Loans		Allowance for Loan Losses
		With No Allowance	With Allowance	
Total Impaired Loans				
Mortgage loans on real estate:				
Residential	\$ 1,444	\$ 1,444	\$ -	\$ -
Commercial real estate	2,242	1,050	1,192	492
Construction and land development	100	—	100	45
Total mortgage loans on real estate	3,786	2,494	1,292	537
Equity lines of credit	100	100	—	—
Commercial loans	1,443	—	1,443	776
Consumer loans	—	—	—	—
Total Loans	\$ 5,329	\$ 2,594	\$ 2,735	\$ 1,313

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, 2016 and 2015 by loan category.

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Average Recorded Investment	Ending Recorded Investment	Interest Income	Average Recorded Investment	Ending Recorded Investment	Interest Income
Mortgage loans on real estate:						
Residential real estate	\$ 1,173	\$ 1,030	\$ 61	\$ 1,100	\$ 1,155	\$ 55
Commercial real estate	4,049	4,093	106	2,764	3,162	58
Construction and land development	75	50	4	120	87	4
Total mortgage loans on real estate	5,297	5,173	171	3,984	4,404	117
Equity lines of credit	100	100	4	192	100	4
Commercial loans	1,057	816	18	1,288	1,476	13
Consumer loans	—	—	—	—	—	—
Total Loans	\$ 6,454	\$ 6,089	\$ 193	\$ 5,464	\$ 5,980	\$ 134

The following tables present the aging of loans and non-accrual loan balances as of September 30, 2016 and December 31, 2015, by class of loans.

As of September 30, 2016	Accruing Loans			Nonaccrual Loans	Total Loans
	Current	30-89 Days Past Due	90+ Days Past Due		
Mortgage loans on real estate:					
Residential	\$ 129,021	\$ 1,613	\$ 506	\$ 271	\$ 131,411
Commercial real estate	166,123	1,190	—	1,540	168,853
Construction and land development	60,952	342	-	43	61,337
Total mortgage loans on real estate	356,096	3,145	506	1,854	361,601
Equity lines of credit	32,115	25	300	60	32,500
Commercial loans	89,907	505	145	421	90,978
Consumer loans	20,643	232	12	85	20,972
Total Loans	\$ 498,761	\$ 3,907	\$ 963	\$ 2,420	\$ 506,051

As of December 31, 2015	Accruing Loans			Nonaccrual Loans	Total Loans
	Current	30-89 Days Past Due	90+ Days Past Due		
Mortgage loans on real estate:					
Residential	\$ 131,608	\$ 2,058	\$ 129	\$ 480	\$ 134,275
Commercial real estate	163,638	—	—	1,415	165,053
Construction and land development	55,676	21	—	64	55,761
Total mortgage loans on real estate	350,922	2,079	129	1,959	355,089
Equity lines of credit	32,934	35	—	—	32,969
Commercial loans	78,282	249	17	1,059	79,607
Consumer loans	19,264	134	91	68	19,557
Total Loans	\$ 481,402	\$ 2,497	\$ 237	\$ 3,086	\$ 487,222

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. As of September 30, 2016 and December 31, 2015, and based on the most recent analysis performed as of those dates, the risk category of loans by class of loans is as follows:

As of June 30, 2016	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential	\$ 121,850	\$ 6,344	\$ 3,217	\$ -	\$ 131,411
Commercial real estate	159,893	4,277	4,683	-	168,853
Construction and land development	59,965	639	647	86	61,337
Total mortgage loans on real estate	341,708	11,260	8,547	86	361,601
Equity lines of credit	32,206	110	184	-	32,500
Commercial loans	87,840	2,205	912	21	90,978
Consumer loans	20,552	233	187	-	20,972
Total Loans	\$ 482,306	\$ 13,808	\$ 9,830	\$ 107	\$ 506,051

As of December 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential	\$ 123,862	\$ 6,765	\$ 3,648	\$ -	\$ 134,275
Commercial real estate	155,235	7,019	2,799	-	165,053
Construction and land development	54,083	845	833	-	55,761
Total mortgage loans on real estate	333,180	14,629	7,280	-	355,089
Equity lines of credit	32,740	104	125	-	32,969
Commercial loans	75,335	2,598	1,674	-	79,607
Consumer loans	18,924	428	205	-	19,557
Total Loans	\$ 460,179	\$ 17,759	\$ 9,284	\$ -	\$ 487,222

Note 6 – Fair Value Measurements and Disclosures

River 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, River may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and foreclosed 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

River 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.

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

Securities available-for-sale – Securities available-for-sale are recorded at fair value on a recurring basis. 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, repayment 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 U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Level 2 securities included mortgage-backed securities issued by government sponsored enterprises and municipal bonds. Securities classified as Level 3 include asset-backed securities in less liquid markets.

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

Loans – River Financial Corporation 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 loan 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, including collateral value, market value of similar debt, and discounted cash flows. 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, 2016 and December 31, 2015, 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, River Financial Corporation records the impaired loan as nonrecurring Level 2. When the fair value is based on an appraised value, River Financial Corporation 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.

Cash value of 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.

Deposit liabilities – 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.

Short-term debt – For disclosure purposes, the carrying amounts of borrowings under repurchase agreements and other short-term borrowings maturing within 90 days 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.

Note Payable – For disclosure purposes the carrying amount of the floating rate note payable approximates fair value.

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 River's assets and liabilities measured at fair value on a recurring basis at September 30, 2016 and December 31, 2015 is as follows:

	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, 2016				
Securities available-for-sale:				
Residential mortgage -backed	\$ 94,498	\$ —	\$ 94,498	\$ —
U.S. government sponsored enterprises	16,558	—	16,558	—
State, county, and municipal	58,607	—	58,607	—
Corporate obligations	2,054	—	1,402	652
Totals	<u>\$ 171,717</u>	<u>\$ —</u>	<u>\$ 171,065</u>	<u>\$ 652</u>

	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)
December 31, 2015				
Securities available-for-sale:				
Residential mortgage -backed	\$ 60,685	\$ —	\$ 60,685	\$ —
U.S. government sponsored enterprises	22,953	—	22,953	—
State, county, and municipal	59,023	—	59,023	—
Corporate obligations	2,060	—	1,408	652
Totals	<u>\$ 144,721</u>	<u>\$ —</u>	<u>\$ 144,069</u>	<u>\$ 652</u>

Assets measured at fair value on a nonrecurring basis - River has assets that, under certain conditions, are subject to measurement at fair value on a non-recurring basis. The following table presents the financial instruments carried on the statement of financial position by caption and by level in the fair value hierarchy, for which a non-recurring change in fair value has been recorded as of September 30, 2016 and December 31, 2015:

	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, 2016				
Impaired loans	\$ 4,900	\$ —	\$ —	\$ 4,900
Foreclosed assets	1,184	—	—	1,184
Totals	<u>\$ 6,084</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,084</u>
December 31, 2015				
Impaired loans	\$ 4,016	\$ —	\$ —	\$ 4,016
Foreclosed assets	1,949	—	—	1,949
Totals	<u>\$ 5,965</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,965</u>

River 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.

The estimated fair values, and related carrying or notional amounts, of River's financial instruments as of September 30, 2016 and December 31, 2015 are as follows:

September 30, 2016	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	\$ 31,142	\$ 31,142	\$ —	\$ —
Certificates of Deposit	5,463	—	5,463	—
Securities Available for Sale	171,717	—	171,065	652
Loans held-for-sale	6,045	—	6,045	—
Restricted Equity Securities	921	—	—	921
Loans Receivable	495,524	—	503,979	—
Bank Owned Life Insurance	15,054	—	15,054	—
Financial Liabilities:				
Deposits	661,334	—	653,446	—
Securities sold under agreements to repurchase	10,053	—	10,053	—
Federal Home Loan Bank advances	2,000	—	2,000	—
Note Payable	6,696	—	6,696	—

December 31, 2015	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	\$ 31,002	\$ 31,002	\$ —	\$ —
Certificates of Deposit	6,070	—	6,070	—
Securities Available for Sale	144,721	—	144,069	652
Loans held-for-sale	2,771	—	2,771	—
Restricted Equity Securities	1,270	—	—	1,270
Loans Receivable	475,444	—	475,892	—
Bank Owned Life Insurance	14,731	—	14,731	—
Financial Liabilities:				
Deposits	610,399	—	599,988	—
Securities sold under agreements to repurchase	10,166	—	10,166	—
Federal Home Loan Bank advances	10,500	—	10,492	—
Note Payable	—	—	—	—

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 at September 30, 2016 and December 31, 2015.

River 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 River's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to River. 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 – Acquisition

On December 31, 2015, Keystone Bancshares, Inc. (“Keystone”) was merged with and into River. Concurrent with the merger of River and Keystone, Keystone Bank was merged with and into River Bank & Trust. Under the terms of the merger agreement, shareholders of Keystone immediately prior to the effective time of the merger received one share of River common stock in exchange for each outstanding share of Keystone common stock held and \$4.00 in cash. In addition, persons holding options or warrants to acquire Keystone common stock received options or warrants to acquire 1.25 shares of River common stock for each option or warrant at a purchase price equal to the original exercise price divided by 1.25. River issued 1,818,492 shares of River common stock to Keystone shareholders and made cash payments to Keystone shareholders of approximately \$7,274.

During the first quarter of 2016, an adjustment to the acquisition values was recorded to recognize the fair value of the Keystone stock options and stock warrants assumed in the merger. The value was computed using the Black-Sholes option pricing model and totaled \$640. The adjustment resulted in an increase to additional paid in capital of \$640 and a corresponding increase in goodwill of \$640.

Note 8 – Recently Issued Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. These amendments are intended to reduce diversity in the timing and content of going concern disclosures. This ASU clarifies management’s responsibility to evaluate and provide related disclosures if there are any conditions or events, as a whole, that raise substantial doubt about the entity’s ability to continue as a going concern for one year after the date on which the financial statements are issued (or, if applicable, available to be issued). The amendments in this ASU will be effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company does not believe that this ASU will have an impact on its financial position or results of operations.

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis. The amendment substantially changes the way that reporting entities are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the new amendment. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, eliminate the presumption that a general partner should consolidate a limited partnership, and affect the consolidation analysis of reporting entities that are involved with VIEs. The amendments in this update will be effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The adoption of this ASU did not have a significant impact on the Company’s financial position or results of operations.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers—Deferral of the Effective Date. ASU 2015-14 defers the effective date of ASU 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, by one year. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. Under ASU 2015-14, ASU 2014-09 is now effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company is currently evaluating the effects of ASU 2014-09 on its financial statements and disclosures, if any.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 simplifies the accounting for measurement-period adjustments in a business combination by requiring the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined, thereby eliminating the requirement to retrospectively account for those adjustments. The acquirer is also required to record in the reporting period in which the adjustments are determined the effect on earnings of changes in depreciation, amortization and other items resulting from the change to the provisional amounts. ASU 2015-16 is effective for annual periods beginning after December 31, 2015, with early application permitted, and applies to adjustments to provisional amounts that occur after the effective date. The Company did adopt this ASU during the first quarter of 2016 and applied its provisions to the adjustments to goodwill during the first quarter of 2016 as discussed in Note 7.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This will enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Some of the amendments include the following: 1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) Simplify the impairment assessment of equity investment’s without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) Require public business entities to use exit price notion when measuring fair value of financial instruments for disclosure purposes; 4) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting in a change in the fair value of a liability resulting in a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; among others. For public business entities, the amendments of this ASU are effective fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This will require lessees to recognize assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right of use asset representing its right to use the underlying asset for lease term. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2018. The amendment should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new guidance will apply to most financial assets measured at amortized cost and certain other instruments including loans, debt securities held to maturity, net investments in leases and off-balance-sheet credit exposures. The guidance will replace the current incurred loss accounting model that delays recognition of a loss until it is probable a loss has been incurred with an expected loss model that reflects expected credit losses based upon a broader range of estimates including consideration of past events, current conditions and supportable forecasts. The guidance also eliminates the current accounting model for purchased credit impaired loans and debt securities. For securities available for sale, credit losses are to be recognized as allowances rather than reductions in the amortized cost of the securities, which will require re-measurement of the related allowance at each reporting period. The guidance includes enhanced disclosure requirements intended to help financial statement users better understand estimates and judgments used in estimating credit losses. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. However, entities can apply these amendments as early as fiscal years beginning after December 15, 2018. The Company is evaluating the impact to its consolidated financial statements upon adoption.

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, 2015, which are contained in the Annual Report on Form 10-K for the year ended December 31, 2015. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those contained in forward-looking statements as a result of many factors, including those discussed in our 2015 Annual Report on Form 10-K under "Part I, Item 1A - Risk Factors," as well as other unknown risks and uncertainties.

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.

Our Business

River is 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, 2016, we operated ten full-service banking offices in Alabama in the cities of Montgomery, Prattville, Millbrook, Wetumpka, Auburn, Opelika, Gadsden and Alexander City.

Overview of Third Quarter 2016 Results

Net income was \$2,216 in the quarter ended September 30, 2016, compared with \$924 in the quarter ended September 30, 2015. Several significant measures from the 2016 third quarter include:

- Net interest margin (taxable equivalent) of 4.29%, compared with 3.87% for the third quarter of 2015.
- Net interest income increase of \$3,370 for the quarter ended September 30, 2016, representing an 88.0% rate of increase over the quarter ended September 30, 2015.
- Annualized return on average assets for the quarter ended September 30, 2016 of 1.17% compared with 0.81% for the quarter ended September 30, 2015.
- Annualized return on average equity for the quarter ended September 30, 2016 of 10.72% compared with 8.11% for the quarter ended September 30, 2015.
- Loan growth of \$417 during the quarter, representing a 0.3% annualized growth rate.
- Deposit growth of \$20,832 during the quarter, representing a 12.9% annualized growth rate.
- Stockholders' equity growth of \$1,939, representing a 9.5% annualized growth rate.
- Book value per share of \$16.46 at September 30, 2016, compared with \$15.58 per share at December 31, 2015.
- Tangible book value per share of \$14.03 at September 30, 2016, compared with \$13.05 at December 31, 2015.

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, 2015, 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 Loan Losses

We record estimated probable inherent credit losses in the loan portfolio as an allowance for loan losses. The methodologies and assumptions for determining the adequacy of the overall allowance for loan losses involve significant judgments to be made by management. Some of the more critical judgments supporting our allowance for loan losses include judgments about: creditworthiness of borrowers, estimated value of underlying collateral, assumptions about cash flow, determination of loss factors for estimating credit losses, and the impact of current events, conditions and other factors impacting the level of inherent losses. Under different conditions or using different assumptions, the actual or estimated credit losses that we may ultimately realize may be different than our estimates. In determining the allowance, we estimate losses on individual impaired loans, or groups of loans that are not impaired, where the probable loss can be identified and reasonably estimated. On a quarterly basis, we assess the risk inherent in our loan portfolio based on qualitative and quantitative trends in the portfolio, including the internal risk classification of loans, historical loss rates, changes in the nature and volume of the loan portfolio, industry or borrower concentrations, delinquency trends, detailed reviews of significant loans with identified weaknesses and the impact of local, regional and national economic factors on the quality of the loan portfolio. Based on this analysis, we may record a provision for loan losses in order to maintain the allowance at appropriate levels. For a more complete discussion of the methodology employed to calculate the allowance for loan losses, see note 1 to our consolidated financial statements for the year ended December 31, 2015, which are contained in our Annual Report on Form 10-K.

Investment Securities Impairment

We assess, on a quarterly basis, whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. In such instance, we would consider many factors, including the severity and duration of the impairment, our intent and ability to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry, and for debt securities, external credit ratings and recent downgrades. Securities on which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value through current earnings.

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 that 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 we 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 non-accretable difference. We must estimate cash flows at each reporting date. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increase 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 with evidence of credit deterioration are also handled under this method.

Comparison of the Results of Operations for the three and nine months ended September 30, 2016 and 2015

The following is a narrative discussion and analysis of significant changes in our results of operations for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015.

Net Income

During the three months ended September 30, 2016, our net income was \$2,216, compared to \$924 for the three months ended September 30, 2015, an increase of \$1,292, or 139.8%. Our results of operations for the three months ended September 30, 2016 included the merger with Keystone Bancshares.

The primary reason for the increase in net income for the third quarter of 2016 as compared to the third quarter of 2015 was an increase in net interest income. During the three months ended September 30, 2016, net interest income was \$7,199 compared to \$3,829 for the three months ended September 30, 2015, an increase of \$3,370, or 88.0%. This increase is a result of higher levels of loan volume and other earning assets from organic growth and the merger with Keystone. Total noninterest income for the third quarter of 2016 was \$1,339 compared to \$718 for the quarter ended September 30, 2015. This increase was primarily the result of the Keystone merger and an increase of \$382 from mortgage operations. Total noninterest expense increased from \$3,109 in the third quarter of 2015 to \$5,093 in the third quarter of 2016. This increase also primarily resulted from the Keystone merger.

During the nine months ended September 30, 2016, our net income was \$5,920, compared to \$2,743 for the nine months ended September 30, 2015, an increase of \$3,177, or 115.8%. Our results of operations for the nine months ended September 30, 2016 included the merger with Keystone Bancshares.

The primary reason for the increase in net income for the nine months ended September 30, 2016 as compared to the same period of 2015 was an increase in net interest income. During this period in 2016, net interest income was \$20,730 compared to \$11,167 for the same period in 2015, an increase of \$9,563, or 85.6%. This increase is a result of higher levels of loan volume and other earning assets from organic growth and the merger with Keystone. Total noninterest income for the first nine months of 2016 was \$3,584 compared to \$2,216 in the first nine months of 2015. The increase was primarily a result of the Keystone merger and an increase of \$809 from mortgage operations. Total noninterest expense in the first nine months of 2016 was \$15,102 compared to \$9,099 in the first nine months of 2015, an increase of \$6,003, or 66.0%. This increase also primarily resulted from the Keystone merger.

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 RFC's 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, 2016 and 2015

The following table shows, for the three months ended September 30, 2016 and 2015, 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.

	Three months Ended September 30, 2016			Three months Ended September 30, 2015		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
<u>Interest earning assets</u>						
Loans	\$ 497,869	\$ 7,015	5.59%	\$ 295,666	\$ 3,630	4.87%
Mortgage loans held for sale	4,949	29	2.29%	222	2	3.57%
Investment securities:						
Taxable securities	93,843	432	1.83%	80,502	338	1.67%
Tax-exempt securities	56,175	429	3.03%	26,092	280	4.26%
Interest bearing balances in other banks	28,128	49	0.69%	809	2	0.98%
Federal funds sold	10,104	15	0.57%	1,385	1	0.29%
Total interest earning assets	\$ 691,068	\$ 7,969	4.57%	\$ 404,676	\$ 4,253	4.17%
<u>Interest bearing liabilities</u>						
Interest bearing transaction accounts	\$ 180,757	\$ 118	0.26%	\$ 116,582	\$ 56	0.19%
Savings and money market accounts	182,533	163	0.36%	86,873	49	0.22%
Time deposits	138,544	240	0.70%	94,765	186	0.78%
Short-term debt	9,178	4	0.16%	9,218	3	0.13%
Federal Home Loan Bank advances	2,000	5	0.93%	6,602	11	0.66%
Note Payable	6,830	62	3.60%	-	-	0.00%
Total interest bearing liabilities	\$ 519,842	\$ 592	0.46%	\$ 314,040	\$ 305	0.39%
Noninterest-bearing funding of earning assets	171,225	-	0.00%	90,636	-	0.00%
Total cost of funding earning assets	\$ 691,067	\$ 592	0.34%	\$ 404,676	\$ 305	0.30%
Net interest rate spread			4.12%			3.78%
Net interest income/margin (taxable equivalent)		\$ 7,377	4.29%		\$ 3,948	3.87%
Tax equivalent adjustment		(178)			(119)	
Net interest income/margin		\$ 7,199	4.19%		\$ 3,829	3.75%

The following table reflects, for the three months ended September 30, 2016 and 2015, 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.

	Three Months Ended September 30, 2016 vs. Three Months Ended September 30, 2015		
	Volume	Variance due to Yield/Rate	Total
<u>Interest earning assets</u>			
Loans	\$ 2,492	\$ 893	\$ 3,385
Mortgage loans held for sale	42	(15)	27
Investment securities:	—	—	
Taxable securities	56	38	94
Tax-exempt securities	321	(172)	149
Interest bearing balances in other banks	67	(20)	47
Federal funds sold	7	7	14
Total interest earning assets	\$ 2,985	\$ 731	\$ 3,716
<u>Interest bearing liabilities</u>			
Interest bearing transaction accounts	\$ 30	\$ 32	\$ 62
Savings and money market accounts	52	62	114
Time deposits	82	(28)	54
Short-term debt	-	1	1
Federal Home Loan Bank advances	(7)	1	(6)
Note Payable	62	-	62
Total interest bearing liabilities	\$ 219	\$ 68	\$ 287
<u>Net interest income</u>			
Net interest income (taxable equivalent)	\$ 2,766	\$ 663	\$ 3,429
Taxable equivalent adjustment	(114)	55	(59)
Net interest income	\$ 2,652	\$ 718	\$ 3,370

Total interest income for the three months ended September 30, 2016 was \$7,791 and total interest expense was \$592, resulting in net interest income of \$7,199 for the period. For the same period of 2015, total interest income was \$4,134 and total interest expense was \$305, resulting in net interest income of \$3,829 for the period. This represents an 88.0% increase in net interest income when comparing the same period from 2016 and 2015. When comparing the variances related to interest income and interest expense for the three months ended September 30, 2016 and 2015, the increase and decrease, respectively, were attributed to the following: (1) the increases in interest income and interest expense related to increases in average volumes resulted primarily from the Keystone merger, and (2) the increase in interest income on loans related to variance in the yield resulted primarily from the accretion of discount on the loans acquired in the Keystone merger which totaled \$703 in the third quarter of 2016 with none in the third quarter of 2015.

Comparison of net interest income for the nine months ended September 30, 2016 and 2015

The following table shows, for the nine months ended September 30, 2016 and 2015, 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.

	Nine months ended September 30, 2016			Nine months ended September 30, 2015		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
Interest earning assets						
Loans	\$ 490,008	\$ 20,260	5.52%	\$ 283,702	\$ 10,376	4.89%
Mortgage loans held for sale	3,598	106	3.94%	185	4	2.89%
Investment securities:						
Taxable securities	87,518	1,222	1.87%	93,352	1,195	1.71%
Tax-exempt securities	53,238	1,304	3.27%	25,903	819	4.23%
Interest bearing balances in other banks	22,025	147	0.89%	1,668	12	0.96%
Federal funds sold	7,061	29	0.55%	930	2	0.29%
Total interest earning assets	\$ 663,448	\$ 23,068	4.64%	\$ 405,740	\$ 12,408	4.09%
Interest bearing liabilities						
Interest bearing transaction accounts	\$ 175,709	\$ 333	0.25%	\$ 116,482	\$ 167	0.19%
Savings and money market accounts	178,770	489	0.37%	83,909	140	0.22%
Time deposits	138,347	715	0.69%	96,851	566	0.78%
Short-term debt	9,743	11	0.15%	8,523	14	0.22%
Federal Home Loan Bank advances	6,310	35	0.74%	6,438	31	0.64%
Note Payable	7,232	190	3.51%	-	-	0.00%
Total interest bearing liabilities	\$ 516,111	\$ 1,773	0.46%	\$ 312,203	\$ 918	0.39%
Noninterest-bearing funding of earning assets	147,337	-	0.00%	93,537	-	0.00%
Total cost of funding earning assets	\$ 663,448	\$ 1,773	0.36%	\$ 405,740	\$ 918	0.30%
Net interest rate spread			4.19%			3.70%
Net interest income/margin (taxable equivalent)		\$ 21,295	4.29%		\$ 11,490	3.79%
Tax equivalent adjustment		(565)			(323)	
Net interest income/margin		\$ 20,730	4.17%		\$ 11,167	3.68%

The following table reflects, for the nine months ended September 30, 2016 and 2015, 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.

	Nine Months Ended September 30, 2016 vs. Nine Months Ended September 30, 2015		
	Volume	Variance due to Yield/Rate	Total
<u>Interest earning assets</u>			
Loans	\$ 7,564	\$ 2,320	\$ 9,884
Mortgage loans held for sale	73	29	102
Investment securities:			
Taxable securities	(73)	100	27
Tax-exempt securities	867	(382)	485
Interest bearing balances in other banks	141	(6)	135
Federal funds sold	16	11	27
Total interest earning assets	\$ 8,588	\$ 2,072	\$ 10,660
<u>Interest bearing liabilities</u>			
Interest bearing transaction accounts	\$ 84	\$ 82	\$ 166
Savings and money market accounts	159	190	349
Time deposits	243	(94)	149
Short-term debt	2	(5)	(3)
Federal Home Loan Bank advances	-	4	4
Note Payable	190	-	190
Total interest bearing liabilities	\$ 678	\$ 177	\$ 855
<u>Net interest income</u>			
Net interest income (taxable equivalent)	\$ 7,910	\$ 1,895	\$ 9,805
Taxable equivalent adjustment	(405)	163	(242)
Net interest income	\$ 7,505	\$ 2,058	\$ 9,563

Total interest income for the nine months ended September 30, 2016 was \$22,503 and total interest expense was \$1,773, resulting in net interest income of \$20,730 for the period. For the same period of 2015, total interest income was \$12,085 and total interest expense was \$918, resulting in net interest income of \$11,167 for the period. This represents an 85.6% increase in net interest income when comparing the same period from 2016 and 2015. When comparing the variances related to interest income and interest expense for the nine months ended September 30, 2016 and 2015, the increase and decrease, respectively, were attributed to the following: (1) the increases in interest income and interest expense related to increases in average volumes resulted primarily from the Keystone merger, and (2) the increase in interest income on loans related to variance in the yield resulted primarily from the accretion of discount on the loans acquired in the Keystone merger which totaled \$1,744 in the nine months ended September 30, 2016 with none in the nine months ended September 30, 2015.

Provision for Loan Losses

The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's evaluation, is adequate to provide coverage for estimated losses on outstanding loans and to provide for uncertainties in the economy. As a result of evaluating the allowance for loan losses at September 30, 2016, management recorded a provision of \$215 in the third quarter of 2016 compared to a provision of \$139 in the second quarter of 2015. The increase in the provision was primarily related to the increase in loans excluding the loans acquired in the Keystone merger. A provision of \$662 was recorded in the nine months ended September 30, 2016 compared to \$417 in the nine months ended September 30, 2015. The increase in the provision was primarily related to the increase in loans excluding the loans acquired in the Keystone merger.

The allowance for loan losses is increased by a provision for loan losses, which is a charge to earnings, and it is decreased by loan charge-offs and increased by recoveries on loans previously charged off. In determining the adequacy of the allowance for loan losses, we consider our historical loan loss experience, the general economic environment, our overall portfolio composition and other relevant information. As these factors change, the level of loan loss provision changes. When individual loans are evaluated for impairment and impairment is deemed necessary, a specific allowance is required for the impaired portion of the loan amount.

Subsequent changes in the impairment amount will generally cause corresponding changes in the allowance related to the impaired loan and corresponding changes to the loan loss provision. As of September 30, 2016, the recorded allowance related to impaired loans was \$1,189. As of September 30, 2015, the recorded allowance related to impaired loans was \$1,604.

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 deposits 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.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Service charges and fees	\$ 633	\$ 467	\$ 1,826	\$ 1,407
Investment brokerage revenue	48	25	182	175
Mortgage operations	437	55	982	173
Bank owned life insurance income	109	77	323	229
Net gain on sale of investment securities	-	11	14	24
Other noninterest income	112	83	257	208
Total noninterest income	<u>\$ 1,339</u>	<u>\$ 718</u>	<u>\$ 3,584</u>	<u>\$ 2,216</u>

Noninterest income for the three months ended September 30, 2016 was \$1,339 compared to \$718 for the same period in 2015. The increases in service charges and fees, bank owned life insurance and other noninterest income were primarily related to the Keystone merger. The increase in mortgage operations revenue of \$382 resulted from the Keystone merger and from an increase in the volume of mortgage loans originated for sale in the quarter ended September 30, 2016 as compared to the third quarter of 2015.

Noninterest income for the nine months ended September 30, 2016 was \$3,584 compared to \$2,216 for the same period of 2015. The increases in service charges and fees, bank owned life insurance and other noninterest income were primarily related to the Keystone merger. The increase in mortgage operations revenue of \$809 resulted from the Keystone merger and from an increase in the volume of mortgage loans originated for sale in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015.

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 expense and miscellaneous other operating expenses.

The following table sets forth the principal components of noninterest expense for the periods indicated.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Salaries and employee benefits	\$ 2,876	\$ 1,568	\$ 8,089	\$ 4,668
Occupancy expenses	387	240	1,134	679
Equipment rentals, depreciation, and maintenance	111	124	580	358
Advertising and business development	70	126	274	371
Data processing	410	307	1,325	836
Foreclosed assets, net	(76)	15	23	119
Federal deposit insurance and other regulatory assessments	113	79	335	237
Legal and other professional services	196	173	624	537
Other operating expense	1,006	477	2,718	1,294
Total noninterest expense	\$ 5,093	\$ 3,109	\$ 15,102	\$ 9,099

Noninterest expense for the three months ended September 30, 2016 totaled \$5,093 compared with \$3,109 for the same period of 2015. The increase was primarily a result of the Keystone merger. Salaries and employee benefits increased \$1,308, or 83.4%, to \$2,876 in the third quarter of 2016 from \$1,568 in the third quarter of 2015. The number of full-time equivalent employees increased from approximately 84 to approximately 128 as a result of the Keystone merger for an increase of approximately 52.4%. Occupancy expenses increased \$147, or 61.3%, in the third quarter of 2016 as compared to the third quarter of 2015. The number of banking offices increased from seven in the third quarter of 2015 to ten in the third quarter of 2016 as a result of the Keystone merger and the opening of a new branch office in Millbrook, Alabama in 2016. Data processing expenses totaled \$410 in the third quarter of 2016 compared to \$307 in the third quarter of 2015 for an increase of \$103, or 33.6%. In addition to increases resulting from the Keystone merger, the Company converted to a new core processing system during 2016 and approximately \$60 of the increase in data processing expense was related to the conversion. Other operating expense increased \$529, or 110.9%, from \$477 in the third quarter of 2015 to \$1,006 in the third quarter of 2016. The amortization of the core deposit intangible recognized at the time of the Keystone merger amounted to \$158 in the third quarter of 2016 compared to none in the third quarter of 2015 and is included in other noninterest expense.

Noninterest expense for the nine months ended September 30, 2016 totaled \$15,102 compared with \$9,099 for the same period of 2015. The increase was primarily a result of the Keystone merger. Salaries and employee benefits increased \$3,421, or 73.3%, to \$8,089 in the first nine months of 2016 from \$4,668 in the first nine months of 2015. The number of full-time equivalent employees increased from approximately 84 to approximately 128 as a result of the Keystone merger for an increase of approximately 52.4%. Occupancy expenses increased \$455, or 67.0%, in the nine months ended September 30, 2016 as compared to the same period in 2015. The number of banking offices increased from seven at September 30, 2015 to ten in at September 30, 2016 as a result of the Keystone merger and the opening of a new branch office in Millbrook, Alabama in 2016. Data processing expenses totaled \$1,325 in the first nine months of 2016 compared to \$836 in the first nine months of 2015 for an increase of \$489, or 58.5%. In addition to increases resulting from the Keystone merger, the Company converted to a new core processing system during 2016 and approximately \$150 of the increase in data processing expense was related to the conversion. Other operating expense increased \$1,424, or 110.0%, from \$1,294 in the first nine months of 2015 to \$2,718 in the same period in 2016. The amortization of the core deposit intangible recognized at the time of the Keystone merger amounted to \$491 in the first nine months of 2016 compared to none in the first nine months of 2015 and is included in other noninterest expense.

Provision for Income Taxes

We recognized income tax expense of \$1,014 for the three months ended September 30, 2016, compared to \$375 for the three months ended September 30, 2015. The increase of \$639 or 170.4%, resulted from the increase in net income before taxes of \$1,931 in the third quarter of 2016 as compared to the third quarter of 2015. The effective tax rate for the three months ended September 30, 2016 was 31.4% compared to 28.9% for the same period in 2015. 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 \$2,630 for the nine months ended September 30, 2016, compared to \$1,124 for the nine months ended September 30, 2015. The increase of \$1,506, or 134.0%, resulted from the increase in net income before taxes of \$4,638 in the first nine months of 2016 as compared to the first nine months of 2015. The effective tax rate for the nine months ended September 30, 2016 was 30.8% compared to 29.1% for the same period in 2015. 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, 2016, and December 31, 2015

Overview

Our total assets increased \$48,568, or 6.8%, from December 31, 2015 to September 30, 2016. Loans, net of deferred fees and discounts, increased \$20,542, or 4.3%, from December 31, 2015 to September 30, 2016. Securities available-for-sale increased by \$26,996, or 18.7%, from December 31, 2015 to September 30, 2016 as net cash inflows from deposits were greater than needed to fund the loan growth over the same period of time. Cash and cash equivalents were little changed with an increase of \$140 or 0.5%. Total deposits increased \$50,935, or 8.3%, with the growth occurring mainly in noninterest-bearing deposits. Total stockholders' equity increased \$8,580, or 11.5%.

Investment Securities

We use our securities portfolio primarily to enhance our overall yield on interest-earning assets, as a source of liquidity, as a tool to manage our balance sheet sensitivity and regulatory capital ratios, and as a base from 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 or pay down, they are used to meet current cash needs, or they are reinvested to maintain our desired liquidity position. We have historically designated all 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. Securities available-for-sale are reported at fair value, with unrealized gains or losses reported as a separate component of other comprehensive income, net of deferred taxes. 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, 2016, we purchased investment securities totaling \$55,347 and sold investment securities with proceeds received of \$10,115 including net realized gains of \$14. The following tables summarize the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of securities available-for-sale at September 30, 2016 and December 31, 2015.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016:				
Securities available-for-sale:				
Residential mortgage-backed	\$ 94,236	\$ 571	\$ (309)	\$ 94,498
U.S. govt. sponsored enterprises	16,310	261	(13)	16,558
State, county, and municipal	57,439	1,280	(112)	58,607
Corporate debt obligations	2,066	8	(20)	2,054
Totals	\$ 170,051	\$ 2,120	\$ (454)	\$ 171,717

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015:				
Securities available-for-sale:				
Residential mortgage-backed	\$ 60,756	\$ 224	\$ (295)	\$ 60,685
U.S. govt. sponsored enterprises	22,985	114	(146)	22,953
State, county, and municipal	58,018	1,011	(6)	59,023
Corporate debt obligations	2,057	3	—	2,060
Totals	\$ 143,816	\$ 1,352	\$ (447)	\$ 144,721

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 \$497,869 during the three months ended September 30, 2016, or 72% of average interest earning assets, as compared to \$295,666, or 73.1% of average interest earning assets, for the three months ended September 30, 2015. At

September 30, 2016, total loans, net of deferred loan fees, were \$499,813, compared to \$479,271 at December 31, 2015, an increase of \$20,542, or 4.2%.

The growth in the loan portfolio is primarily attributable to the Bank's ability to attract new customers from other financial institutions. We have hired experienced bankers in the markets we serve and these employees were successful in transitioning many of their former clients as well as bringing new clients to the Bank. Our bankers are expected to maintain calling efforts to develop relationships with clients and our philosophy is to be responsive to customer needs by providing service and decisions in a timely manner. Additionally, the markets we serve have shown some signs of economic recovery over the last few years which has increased demand for the services we provide.

The following table provides a summary of the loan portfolio as of September 30, 2016, and December 31, 2015.

	September 30, 2016		December 31, 2015	
	Amount	% of Total	Amount	% of Total
Residential real estate:				
Closed-end 1-4 family - first lien	\$ 109,213	22.0%	\$ 111,476	23.4%
Closed-end 1-4 family - junior lien	5,079	1.0%	5,246	1.1%
Multi-family	17,119	3.5%	17,553	3.7%
Total residential real estate	131,411	26.5%	134,275	28.2%
Commercial real estate:				
Nonfarm nonresidential	155,836	31.5%	149,597	31.5%
Farmland	13,017	2.6%	15,456	3.3%
Total commercial real estate	168,853	34.1%	165,053	34.8%
Construction and land development:				
Residential	21,872	4.4%	21,302	4.5%
Other	39,465	8.0%	34,459	7.2%
Total construction and land development	61,337	12.4%	55,761	11.7%
Home equity lines of credit	32,500	6.6%	32,969	6.9%
Commercial loans:				
Other commercial loans	81,739	16.5%	71,247	15.0%
Agricultural	899	0.2%	946	0.2%
State, county, and municipal loans	8,340	1.7%	7,414	1.6%
Total commercial loans	90,978	18.4%	79,607	16.8%
Consumer loans				
Total gross loans	506,051	102.2%	487,222	102.5%
Allowance for loan losses	(4,289)	-0.9%	(3,827)	-0.8%
Net deferred loan fees and discounts	(6,238)	-1.3%	(7,951)	-1.7%
Net loans	\$ 495,524	100.0%	\$ 475,444	100.0%

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, construction and land development loans, and home equity lines of credit. At September 30, 2016, this category totaled \$361,601, or 73.0% of total gross loans, compared to \$355,089, or 72.9%, at December 31, 2015. Real estate loans increased \$6,512, or 1.8%, during the period December 31, 2015 to September 30, 2016. Commercial loans increased \$11,371, or 14.28% 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 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 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 allows 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.

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

Allowance for loan losses and provision for loan losses

The allowance for loan 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 loan losses are made by charges to the provision for loan losses. Loans deemed to be uncollectible are charged against the allowance. Recoveries of previously charged-off amounts are credited to the allowance for loan losses.

Management utilizes a review process for the loan portfolio to identify loans that are deemed to be impaired. A loan is considered impaired when it is probable that the Bank will be unable to collect the scheduled payments of principal and interest due under the contractual terms of the loan agreement or when the loan is deemed to be a troubled debt restructuring. For loans and loan relationships deemed to be impaired that are \$100, or greater, management determines the estimated value of the underlying collateral, less estimated costs to acquire and sell the collateral, or the estimated net present value of the cash flows expected to be received on the loan or loan relationship. These amounts are compared to the current investment in the loan and a specific allowance for the deficiency, if any, is specifically included in the analysis of the allowance for loan losses. For loans and loan relationships less than \$100 that are deemed to be impaired, management applies a general loss factor of 15% and includes that amount in the analysis of the allowance for loan losses rather than specifically measuring the impairment for each loan.

All other loans are deemed to be unimpaired and are grouped into various homogeneous risk pools primarily utilizing regulatory reporting classification codes. The Bank's historical loss factors are calculated for each of the risk pools based on the percentage of net losses experienced as a percentage of the average loans outstanding. The time periods utilized in these historical loss factor calculations are subjective and vary according to management's estimate of the impact of current economic cycles. As every loan has a risk of loss, minimum loss factors are estimated based on long term trends for the Bank, the banking industry, and the economy. The greater of the calculated historical loss factors or the minimum loss factors are applied to the unimpaired loan amounts currently outstanding for the risk pool and included in the analysis of the allowance for loan losses. In addition, certain qualitative adjustments may be included by management as additional loss factors. These adjustments may include, among other things, changes in loan policy, loan administration, loan concentrations, and loan growth. The loss allocations for specifically impaired loans, smaller impaired loans not specifically measured for impairment, and unimpaired loans are totaled to yield the allowance for loan losses.

Management believes the data it uses in determining the allowance for loan 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 loan losses for the periods indicated.

	As of and for the Three Months Ended:		As of and for the Nine Months Ended:	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Allowance for loan losses at beginning of period	\$ 4,121	\$ 3,920	\$ 3,827	\$ 3,778
Charge-offs:				
Mortgage loans on real estate:				
Residential	—	—	—	—
Commercial real estate	15	—	15	—
Construction and land development	—	—	—	—
Total mortgage loans on real estate	15	—	15	—
Equity lines of credit	—	—	10	333
Commercial	35	8	241	10
Consumer	27	36	36	77
Total	77	44	302	420
Recoveries:				
Mortgage loans on real estate:				
Residential	5	—	5	—
Commercial real estate	—	—	—	—
Construction and land development	1	1	10	189
Total mortgage loans on real estate	8	1	15	189
Equity lines of credit	(4)	7	16	7
Commercial	14	8	52	36
Consumer	12	6	19	30
Total	30	22	102	262
Net Charge-offs (Recoveries)	47	22	200	158
Provision for loan losses	215	139	662	417
Allowance for loan losses at end of period	<u>\$ 4,289</u>	<u>\$ 4,037</u>	<u>\$ 4,289</u>	<u>\$ 4,037</u>
Total loans outstanding, net of deferred loan fees	499,813	305,020	499,813	305,020
Average loans outstanding, net of deferred loan fees	497,869	295,666	490,008	283,702
Allowance for loan losses to period end loans	0.86%	1.32%	0.86%	1.32%
Net charge-offs (recoveries) to average loans (annualized)	0.04%	0.03%	0.06%	0.07%

Allocation of the Allowance for Loan Losses

While no portion of the allowance for loans 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 loan losses to specific loan categories as of the dates indicated.

	September 30, 2016		December 31, 2015	
	Amount	Percent of Total	Amount	Percent of Total
Mortgage loans on real estate:				
Residential	\$ 579	13.5%	\$ 368	9.6%
Commercial real estate	1,266	29.6%	1,302	34.0%
Construction and land development	812	18.9%	569	14.9%
Total mortgage loans on real estate	2,657	62.0%	2,239	58.5%
Equity lines of credit	179	4.2%	150	3.9%
Commercial	1,215	28.3%	1,250	32.7%
Consumer	238	5.5%	188	4.9%
Total	\$ 4,289	100%	\$ 3,827	100%

Nonperforming Assets

The following table presents our nonperforming assets as of the dates indicated:

	September 30,		December 31,
	2016	2015	2015
Nonaccrual loans	\$ 2,420	\$ 2,471	\$ 3,086
Accruing loans past due 90 days or more	963	137	237
Total nonperforming loans	3,383	2,608	3,323
Foreclosed assets	1,184	1,219	1,949
Total nonperforming assets	\$ 4,567	\$ 3,827	\$ 5,272
Allowance for loan losses to period end loans	0.86%	1.32%	0.80%
Allowance for loan losses to period end nonperforming loans	126.78%	154.79%	115.17%
Net charge-offs (recoveries) to average loans (annualized)	0.06%	0.07%	0.18%
Nonperforming assets to period end loans and foreclosed property	0.91%	1.25%	1.10%
Nonperforming loans to period end loans	0.68%	0.86%	0.69%

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. 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 the loan is on nonaccrual status are applied to the loan's outstanding principal balance. When a problem loan is fully resolved, there may ultimately be an actual write-down or charge-off of the principal balance of the loan which would necessitate additional charges to the allowance for loan 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, 2016, and December 31, 2015.

	September 30, 2016		December 31, 2015	
	Amount	Percent of Total	Amount	Percent of Total
Demand deposits, non-interest bearing	\$ 155,328	23.5%	\$ 124,345	20.4%
Demand deposits, interest bearing	181,350	27.4%	174,827	28.6%
Money market accounts	165,790	25.0%	149,664	24.5%
Savings deposits	22,434	3.4%	19,524	3.2%
Time certificates of \$250 or more	32,206	4.9%	30,929	5.1%
Other time certificates	104,226	15.8%	111,110	18.2%
Totals	<u>\$ 661,334</u>	<u>100.0%</u>	<u>\$ 610,399</u>	<u>100.0%</u>

Total deposits were \$661,334 at September 30, 2016, an increase of \$50,935 from December 31, 2015 with the increase resulting mainly in the balances of demand deposits. We have aggressively managed interest rates on deposits and maintained an emphasis on increasing the number and volume of accounts other than time certificates of deposit to lower the cost of funding for the Bank during the previous few years as general interest rates have remained low with many at historical lows. This strategy led to the decrease in time certificates of deposit during the period from December 31, 2015 to September 30, 2016 of \$5,607.

The following table presents the Bank's time certificates of deposits by various maturities as of September 30, 2016.

	All Time Deposits	Time Deposits \$100 or more	Time Deposits less than \$100
Three months or less	\$ 24,514	\$ 14,715	\$ 9,799
Greater than three months through six months	30,687	19,572	11,115
Greater than six months through one year	41,446	27,817	13,629
Greater than one year through three years	30,859	17,648	13,211
Greater than three years	8,926	5,913	3,013
Total	<u>\$ 136,432</u>	<u>\$ 85,665</u>	<u>\$ 50,767</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). We had FHLB borrowings of \$2,000 at September 30, 2016 and \$10,500 at December 31, 2015 drawn on a line of credit. The line of credit with the FHLB is secured by pledges of various loans in our loan portfolio. At September 30, 2016, the FHLB line of credit remaining available was \$77,930 and at December 31, 2015 it was \$54,002. We also have lines of credit for federal funds borrowings with other banks that totaled \$28,500 at September 30, 2016 and \$31,500 at December 31, 2015. Furthermore, we have pledged certain loans to the Federal Reserve Bank (FRB) to secure a line of credit. At September 30, 2016, the FRB line of credit available was \$53,573 and at December 31, 2015, the FRB line of credit available was \$36,995. We have never drawn on the FRB line of credit and consider it a contingency line of credit to be used only for emergency liquidity management.

River borrowed \$7,500 on January 4, 2016 and used the proceeds to fund the cash payments made to Keystone shareholders according to the merger agreement. The loan matures on December 31, 2022. The interest rate is floating and is equal to the Wall Street Journal Prime Rate. Quarterly principal payments of \$268 plus accrued interest are due on March 31, June 30, September 30, and December 31 of each year.

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, 2016 and December 31, 2015, were \$31,142 and \$31,002, respectively. Based on recorded cash and cash equivalents, management believes River Financial Corporation's liquidity resources were sufficient at September 30, 2016 to fund loans and meet other cash needs as necessary.

Commitments

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. Those 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, 2016 and December 31, 2015 were as follows in (thousands):

	September 30, 2016	December 31, 2015
Commitments to extend credit	\$ 109,630	\$ 101,238
Stand-by and performance letters of credit	2,182	2,935
Total	<u>\$ 111,812</u>	<u>\$ 104,173</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, 2016.

	Due in 1 year or less	Due after 1 through 3 years	Due after 3 through 5 years	Due after 5 years	Total
Federal Home Loan Bank advances	\$ 2,000	\$ —	\$ —	\$ —	\$ 2,000
Certificates of deposit of less than \$250	72,506	24,293	7,427	—	104,226
Certificates of deposit of \$250 or more	24,141	6,565	1,500	—	32,206
Securities sold under agreements to repurchase	10,053	—	—	—	10,053
Note payable	1,071	2,142	2,142	1,341	6,696
Operating leases	500	940	944	1,152	3,536
Total contractual obligations	<u>\$ 110,271</u>	<u>\$ 33,940</u>	<u>\$ 12,013</u>	<u>\$ 2,493</u>	<u>\$ 158,717</u>

Capital Position and Dividends

At September 30, 2016 and December 31, 2015, total stockholders' equity was \$83,504 and \$74,924, respectively. The increase of \$8,580 resulted mainly from retained earnings and incentive stock options and stock warrants exercised during the nine months ended September 30, 2016. A total of \$2,506 was received and a total of 273,294 shares were issued for the exercise of incentive stock options and stock warrants consisting of 206,784 unissued shares and 66,510 shares from treasury. Retained earnings for the first nine months of 2016 amounted to \$5,108. The ratio of stockholders' equity to total assets was 10.89% and 10.43% at September 30, 2016 and December 31, 2015, respectively.

River Bank & Trust 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, the River Bank & Trust 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 & Trust's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures, established by regulation to ensure capital adequacy effective January 1, 2015, require River Bank & Trust 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), and of Tier 1 capital (as defined) to average assets (as defined).

Management believes, as of September 30, 2016, that the Bank meets all capital adequacy requirements to which it is subject. The following table presents the Bank's capital amounts and ratios as of September 30, 2016 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, 2016:

	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)	\$ 79,885	14.03%	\$ 49,110	>= 8.625%	\$ 56,939	>= 10.00%
Common Equity Tier 1 Capital (To Risk-weighted Assets)	75,596	13.27%	29,196	>= 5.125%	37,029	>= 6.50%
Tier 1 Capital (To Risk-Weighted Assets)	75,596	13.27%	37,741	>= 6.625%	45,574	>= 8.00%
Tier 1 Capital (To Average Assets)	75,596	10.03%	30,148	>= 4.00%	37,685	>= 5.00%

Management believes, as of December 31, 2015, 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, 2015 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, 2015:

	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)	\$ 75,020	13.89%	\$ 43,208	>= 8.00%	\$ 54,010	>= 10.00%
Common Equity Tier 1 Capital (To Risk-weighted Assets)	71,193	13.18%	24,307	>= 4.50%	35,110	>= 6.50%
Tier 1 Capital (To Risk-Weighted Assets)	71,193	13.18%	32,410	>= 6.00%	43,213	>= 8.00%
Tier 1 Capital (To Average Assets)	71,193	15.76%	18,069	>= 4.00%	22,587	>= 5.00%

River Financial Corporation's principal source of funds for dividend payments and debt service is dividends received from River Bank & Trust. There are statutory limitations on the payment of dividends by River Bank & Trust to River Financial Corporation. As of September 30, 2016, the maximum amount the Bank could dividend to River Financial Corporation without prior regulatory authority approval was approximately \$9,844. In addition to dividend restrictions, federal statutes prohibit unsecured loans from banks to bank holding companies.

During the nine months ending September 30, 2016 there were 108,000 incentive stock options issued with a weighted average exercise price of \$16 per share. During the same period, there were 292,325 incentive stock options and warrants exercised at a weighted average exercise price of \$9.63 per share. A total of 273,675 incentive stock options and warrants were outstanding as of September 30, 2016 with a weighted average exercise price of \$13.97 per share and a weighted average remaining life of 6.4 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, 2016, assuming the relevant assets and liabilities are collected and paid, respectively, based upon historical experience rather than their stated maturities.

	0-1 Mos	1-3 Mos	3-12 Mos	1-2 Yrs	2-3 Yrs	>3 Yrs	Total
Interest earning assets							
Loans	\$ 123,425	\$ 29,665	\$ 102,741	\$ 92,171	\$ 56,956	\$ 94,855	\$ 499,813
Securities	1,728	8,100	18,507	30,843	30,798	81,741	171,717
Certificates of deposit in banks	470	486	—	1,246	251	3,010	5,463
Cash balances in banks	14,172	—	—	—	—	—	14,172
Federal funds sold	2,301	—	—	—	—	—	2,301
Total interest earning assets	\$ 142,096	\$ 38,251	\$ 121,248	\$ 124,260	\$ 88,005	\$ 179,606	\$ 693,466
Interest bearing liabilities							
Interest bearing transaction accounts	\$ 81,547	\$ 3,382	\$ 15,219	\$ 20,297	\$ 20,297	\$ 40,608	\$ 181,350
Savings and money market accounts	102,269	3,516	15,822	21,096	21,096	24,425	188,224
Time deposits	7,389	16,973	72,133	24,763	6,096	9,078	136,432
Short term borrowings	10,053	—	—	—	—	—	10,053
Federal Home Loan Bank advances	—	2,000	—	—	—	—	2,000
Long term borrowings	—	268	804	1,072	1,072	3,480	6,696
Total interest bearing liabilities	\$ 201,258	\$ 26,139	\$ 103,978	\$ 67,228	\$ 48,561	\$ 77,591	\$ 524,755
Interest sensitive gap							
Period gap	\$ (59,162)	\$ 12,112	\$ 17,270	\$ 57,032	\$ 39,444	\$ 102,015	\$ 168,711
Cumulative gap	\$ (59,162)	\$ (47,050)	\$ (29,780)	\$ 27,252	\$ 66,696	\$ 168,711	
Cumulative gap - Rate Sensitive Assets/ Rate Sensitive Liabilities	-8.5%	-6.8%	-4.3%	3.9%	9.6%	24.3%	

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 simulation 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, 2016	As of December 31, 2015
Change in prevailing rates:		
+ 400 basis points	-0.73%	-0.87%
+ 300 basis points	0.02%	-0.49%
+ 200 basis points	0.07%	-0.81%
+ 100 basis points	0.21%	-0.79%
+ 0 basis points	—	—
- 100 basis points	-0.90%	0.16%
- 200 basis points	-3.78%	-3.10%
- 300 basis points	-5.27%	-4.56%
- 400 basis points	-6.20%	-5.50%

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

Management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management, including our Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required 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, 2016 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

Various legal proceedings to which River Financial Corporation (the “Company”) or a subsidiary of the Company is a party arise from time to time in the normal course of business. There are no material pending legal proceedings to which the Company or a subsidiary is a party or of which any of their property is the subject.

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, 2015 that could materially affect the Company’s business, financial condition or future results. 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.

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

On July 5, 2016, the Company sold 9,638 shares to its employee stock ownership plan for cash. The Company relied upon the exemption from registration under SEC Rule 147.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Item 6. Exhibits.

Exhibit Number	Description
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 Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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 Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32 *	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* 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 FTNANCIAL CORPORATION

Date: November 14, 2016

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

Date: November 14, 2016

By: /s/ Kenneth H. Givens
Kenneth H. Givens
Chief Financial Officer