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 March 31, 2018

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	**46-1422125**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2611 Legends Drive Prattville, Alabama	**36066**
(Address of principal executive offices)	**(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a small reporting company)	Smaller reporting company	☒
Emerging growth company	☐		

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

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

As of May 3, 2018, the registrant had 5,124,518 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)

	March 31, 2018 Unaudited	December 31, 2017 Audited
Assets		
Cash and due from banks	$ 12,505	$ 14,669
Interest-bearing deposits in banks	16,476	889
Cash and cash equivalents	28,981	15,558
Certificates of deposit in banks	2,992	5,214
Securities available-for-sale	146,680	193,289
Loans held for sale	3,737	3,858
Loans, net of unearned income	579,777	547,121
Less allowance for loan losses	(5,387)	(4,881)
Net loans	574,390	542,240
Premises and equipment, net	21,659	21,809
Accrued interest receivable	2,129	2,499
Bank owned life insurance	20,131	19,991
Foreclosed assets	1,677	1,546
Deferred income taxes	2,962	1,977
Core deposit intangible	1,433	1,560
Goodwill	10,050	10,050
Other assets	4,215	3,701
Total assets	$ 821,036	$ 823,292
Liabilities and Shareholders' Equity		
Noninterest-bearing deposits	$ 180,399	$ 185,171
Interest-bearing deposits	519,658	514,690
Total deposits	700,057	699,861
Securities sold under agreements to repurchase	13,139	13,865
Federal Home Loan Bank advances	10,000	10,000
Federal funds purchased	-	1,153
Note payable	5,089	5,357
Accrued interest payable and other liabilities	3,440	3,107
Total liabilities	731,725	733,343
Common stock related to 401(k) Employee Stock Ownership Plan	950	950
Stockholders' Equity:		
Common stock ($1 par value; 10,000,000 shares authorized; 5,140,201 and 5,113,951 shares issued; 5,124,318 and 5,098,068 shares outstanding, respectively)	5,140	5,114
Additional paid in capital	65,212	64,935
Retained earnings	23,213	22,388
Accumulated other comprehensive loss	(3,882)	(2,116)
Treasury stock at cost (15,883 shares)	(372)	(372)
Common stock related to 401(k) Employee Stock Ownership Plan	(950)	(950)
Total stockholders' equity	88,361	88,999
Total equity	89,311	89,949
Total liabilities and stockholders' equity	$ 821,036	$ 823,292

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: March 31, 2018		For the Three Months Ended: March 31, 2017
Interest income:			
Loans, including fees	$	7,326	$	6,785
Taxable securities		625		702
Nontaxable securities		204		286
Other interest income		44		63
Total interest income		8,199		7,836
Interest expense:				
Deposits		582		519
Short-term borrowings		10		5
Federal Home Loan Bank advances		61		-
Note payable		60		61
Total interest expense		713		585
Net interest income		7,486		7,251
Provision for loan losses		480		360
Net interest income after provision for loan losses		7,006		6,891
Noninterest income:				
Service charges and fees		760		699
Investment brokerage revenue		42		25
Mortgage operations		410		409
Bank owned life insurance income		140		104
Net gain on sale of investment securities		2		-
Other noninterest income		115		70
Total noninterest income		1,469		1,307
Noninterest expense:				
Salaries and employee benefits		3,369		2,717
Occupancy expenses		342		330
Equipment rentals, depreciation, and maintenance		258		183
Telephone and communications		49		55
Advertising and business development		120		115
Data processing		417		442
Foreclosed assets, net		23		38
Federal deposit insurance and other regulatory assessments		82		92
Legal and other professional services		110		126
Other operating expense		819		798
Total noninterest expense		5,589		4,896
Income before income taxes		2,886		3,302
Provision for income taxes		627		1,073
Net income	$	2,259	$	2,229
Basic net earnings per common share	$	0.44	$	0.44
Diluted net earnings per common share	$	0.43	$	0.43
Dividends per common share	$	0.28	$	0.25

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 March 31, 2018	2017
Net income	$ 2,259	$ 2,229
Other comprehensive income (loss), net of tax:		
Investment securities available-for-sale:		
Net unrealized gains (losses)	(2,355)	908
Reclassification adjustments for net gains realized in net income	(4)	-
Income tax effect	593	(335)
Other comprehensive income (loss)	(1,766)	573
Comprehensive income	$ 493	$ 2,802

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 (Loss)	Treasury Stock	Common Stock Related to KSOP	Total Stockholders' Equity
Balance at December 31, 2017	$ 5,114	$ 64,935	$ 22,388	$ (2,116)	$ (372)	$ (950)	$ 88,999
Net income	-	-	2,259	-	-	-	2,259
Other comprehensive loss	-	-	-	(1,766)	-	-	(1,766)
Exercise of stock options and warrants (26,250 shares)	26	263	-	-	-	-	289
Dividends declared ($0.28 per share)	-	-	(1,434)	-	-	-	(1,434)
Stock compensation expense	-	14	-	-	-	-	14
Balance at March 31, 2018	$ 5,140	$ 65,212	$ 23,213	$ (3,882)	$ (372)	$ (950)	$ 88,361

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

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

	For the Three Months Ended March 31, 2018	For the Three Months Ended March 31, 2017
Cash Flows From (Used For) Operating Activities:		
Net Income	$ 2,259	$ 2,229
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	480	360
Provision for losses on foreclosed assets	30	30
Amortization of securities available-for-sale	459	544
Accretion of securities available-for-sale	(7)	(8)
Realized net gain on securities available-for-sale	(2)	-
Accretion of discount on acquired loans	(342)	(647)
Amortization of deferred loan fees	(277)	(235)
Amortization of core deposit intangible asset	127	148
Stock compensation expense	14	13
Bank owned life insurance income	(140)	(104)
Depreciation and amortization of premises and equipment	248	217
Gain on sale of foreclosed assets	-	(16)
Deferred income tax (benefit)	(392)	177
(Increase) decrease in operating assets and (decrease) increase in operating liabilities:		
Loans held-for-sale	121	3,059
Accrued interest receivable	370	45
Other assets	(502)	13
Accrued interest payable and other liabilities	333	(182)
Net cash from operating activities	2,779	5,643
Cash Flows From (Used For) Investing Activities:		
Sales of certificate of deposit	1,452	-
Maturity of certificate of deposit	999	-
Purchase of certificate of deposit	(249)	-
Activity in securities available-for-sale:		
Sales	35,854	-
Maturities, payments, calls	7,966	4,709
Purchases	-	(33,665)
Loan principal originations, net	(32,319)	4,493
Proceeds from sale of foreclosed assets	147	369
Purchases of premises and equipment	(98)	(579)
Purchase of restricted equity securities, net	(12)	(83)
Net cash from (used for) investing activities	13,740	(24,756)
Cash Flows From (Used For) Financing Activities:		
Net increase (decrease) in deposits	196	(2,975)
Net (decrease) increase in securities sold under agreements to repurchase	(726)	236
Proceeds from Federal Home Loan Bank advances	20,000	-
Repayment of Federal Home Loan Bank advances	(20,000)	-
Repayment of note payable	(268)	(268)
Federal funds purchased	(1,153)	-
Proceeds from exercise of common stock options and warrants	289	50
Purchase of treasury stock	-	(29)
Cash dividends	(1,434)	(1,272)
Net cash used for financing activities	(3,096)	(4,258)
Net Change In Cash And Cash Equivalents	13,423	(23,371)
Cash and Cash Equivalents At Beginning Of Period	15,558	42,499
Cash and Cash Equivalents At End Of Period	$ 28,981	$ 19,128
Supplemental Disclosures Of Cash Flows Information:		
Cash Payments For:		
Interest paid to depositors	$ 582	$ 586
Interest paid on borrowings	$ 125	$ 66
Non-cash investing and financing activities:		
Transfer of loans to foreclosed assets	$ 308	$ 2,428

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

Note 1 – Basis of Presentation

General

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

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

These interim consolidated financial statements have been prepared 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, 2017, which are contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017

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

Note 2 – Earnings Per Share

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

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

	For the Three Months Ended March 31,	
	2018	2017
Net earnings available to common shareholders	$ 2,259	$ 2,229
Weighted average common shares outstanding	5,111,704	5,084,621
Dilutive effect of stock options	90,888	57,352
Diluted common shares	5,202,592	5,141,973
Basic earnings per common share	$ 0.44	$ 0.44
Diluted earnings per common share	$ 0.43	$ 0.43

Note 3 – Investment Securities

Securities available-for-sale at March 31, 2018 and December 31, 2017 are as follows (amounts in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018:				
Securities available-for-sale:				
Residential mortgage-backed	$ 104,666	$ -	$ (4,405)	$ 100,261
U.S. govt. sponsored enterprises	9,695	-	(263)	9,432
State, county, and municipal	36,100	83	(510)	35,673
Corporate debt obligations	1,383	-	(69)	1,314
Totals	$ 151,844	$ 83	$ (5,247)	$ 146,680

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017:				
Securities available-for-sale:				
Residential mortgage-backed	$ 125,768	$ 23	$ (2,819)	$ 122,972
U.S. govt. sponsored enterprises	13,176	8	(185)	12,999
State, county, and municipal	55,339	511	(349)	55,501
Corporate debt obligations	1,831	11	(25)	1,817
Totals	$ 196,114	$ 553	$ (3,378)	$ 193,289

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 March 31, 2018 and December 31, 2017 are as follows (amounts in thousands):

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2018:						
Securities available-for-sale:						
Residential mortgage-backed	$ 30,148	$ 845	$ 70,113	$ 3,560	$ 100,261	$ 4,405
U.S. govt. sponsored enterprises	5,813	113	3,619	150	9,432	263
State, county & municipal	15,889	217	12,288	293	28,177	510
Corporate debt obligations	1,000	-	315	69	1,315	69
Totals	$ 52,850	$ 1,175	$ 86,335	$ 4,072	$ 139,185	$ 5,247
December 31, 2017:						
Securities available-for-sale:						
Residential mortgage-backed	$ 43,811	$ 445	$ 75,046	$ 2,374	$ 118,857	$ 2,819
U.S. govt. sponsored enterprises	8,630	60	3,698	125	12,328	185
State, county & municipal	14,535	130	14,559	219	29,094	349
Corporate debt obligations	1,000	-	355	25	1,355	25
Totals	$ 67,976	$ 635	$ 93,658	$ 2,743	$ 161,634	$ 3,378

As of March 31, 2018, 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. The Company 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 three months ended March 31, 2018 or 2017. The Company owned a total of 149 securities with unrealized losses of $5.25 million at March 31, 2018. As of March 31, 2018 and December 31, 2017, securities with a carrying value of approximately $29.4 million and $28.5 million, respectively, were pledged to secure public deposits as required by law. At March 31, 2018 and December 31, 2017, the carrying value of securities pledged to secure repurchase agreements was approximately $18.9 million and $20 million, respectively.

During the three months ended March 31, 2018, the Company sold investment securities for proceeds of $35.9 million and realized gains of $2 thousand. No securities were sold during the three months ended March 31, 2017.

The amortized cost and estimated fair value of securities available-for-sale at March 31, 2018, 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	$ 4,710	$ 4,700
1 to 5 years	15,066	14,854
5 to 10 years	7,860	7,711
After 10 years	19,542	19,154
	47,178	46,419
Residential mortgage-backed securities	104,666	100,261
Totals	$ 151,844	$ 146,680

Note 4 – Loans, Allowance for Loan Losses and Credit Quality

Major classifications of loans at March 31, 2018 and December 31, 2017 are summarized as follows (amounts in thousands):

	March 31, 2018		December 31, 2017	
	Amount	% of Total	Amount	% of Total
Residential real estate:				
Closed-end 1-4 family - first lien	$ 121,826	21.2%	$ 115,776	21.4%
Closed-end 1-4 family - junior lien	4,824	0.8%	4,969	0.9%
Multi-family	16,981	3.0%	16,977	3.1%
Total residential real estate	143,631	25.0%	137,722	25.4%
Commercial real estate:				
Nonfarm nonresidential	178,166	31.0%	173,443	32.0%
Farmland	7,764	1.4%	7,782	1.4%
Total commercial real estate	185,930	32.4%	181,225	33.4%
Construction and land development:				
Residential	34,658	6.0%	25,830	4.8%
Other	41,659	7.3%	40,734	7.5%
Total construction and land development	76,317	13.3%	66,564	12.3%
Home equity lines of credit	36,210	6.3%	35,833	6.6%
Commercial loans:				
Other commercial loans	103,487	18.0%	95,896	17.7%
Agricultural	1,283	0.2%	1,581	0.3%
State, county, and municipal loans	12,686	2.2%	8,332	1.5%
Total commercial loans	117,456	20.4%	105,809	19.5%
Consumer loans	23,203	4.0%	23,231	4.3%
Total gross loans	582,747	101.4%	550,384	101.5%
Allowance for loan losses	(5,387)	-0.9%	(4,881)	-0.9%
Net deferred loan fees and discounts	(2,970)	-0.5%	(3,263)	-0.6%
Net loans	$ 574,390	100.0%	$ 542,240	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.

For purposes of the disclosures required pursuant to ASC 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for loan losses. There are three primary loan portfolio segments that include real estate, commercial, and consumer. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and the Company's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include residential real estate, commercial real estate, construction and land development and home equity lines of credit. The portfolio segments of non-real estate commercial loans and consumer loans have not been further segregated by class.

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

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

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

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

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

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

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

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 below (amounts in thousands). Acquired loans are not included in the allowance for loan losses calculation, as these loans are recorded at fair value and there has been no further indication of credit deterioration that would require an additional provision.

	Real Estate Mortgage Loans						
Allowance for Loan Losses	Residential	Commercial	Construction and Land Development	Home Equity Lines Of Credit	Commercial	Consumer	Total
Balance - December 31, 2017	$ 1,167	$ 1,604	$ 606	$ 333	$ 954	$ 217	$ 4,881
Provision for loan losses	65	122	110	46	117	20	480
Loan charge-offs	-	-	-	-	(40)	(30)	(70)
Loan recoveries	-	3	22	2	66	3	96
Balance - March 31, 2018	$ 1,232	$ 1,729	$ 738	$ 381	$ 1,097	$ 210	$ 5,387
Ending balance:							
Individually evaluated for impairment	$ 524	$ 176	$ 15	$ -	$ 171	$ 9	$ 895
Collectively evaluated for impairment	708	1,553	723	381	926	201	4,492
Total	$ 1,232	$ 1,729	$ 738	$ 381	$ 1,097	$ 210	$ 5,387
Loans:							
Individually evaluated for impairment	$ 2,241	$ 2,266	$ 166	$ 100	$ 296	$ 85	$ 5,154
Collectively evaluated for impairment	141,390	183,664	76,151	36,110	117,160	23,118	577,593
Total	$143,631	$ 185,930	$ 76,317	$ 36,210	$ 117,456	$ 23,203	$582,747

Allowance for Loan Losses	Real Estate Mortgage Loans Residential	Commercial	Construction and Land Development	Home Equity Lines Of Credit	Commercial	Consumer	Total
Balance - December 31, 2016	$ 563	$ 1,506	$ 723	$ 187	$ 829	$ 199	$ 4,007
Provision for loan losses	210	(229)	55	163	75	86	360
Loan charge-offs	-	-	(115)	(107)	(24)	(88)	(334)
Loan recoveries	-	-	3	1	22	1	27
Balance - March 31, 2017	$ 773	$ 1,277	$ 666	$ 244	$ 902	$ 198	$ 4,060
Ending balance:							
Individually evaluated for impairment	$ 296	$ 384	$ -	$ -	$ 432	$ 15	$ 1,127
Collectively evaluated for impairment	477	893	666	244	470	183	2,933
Total	$ 773	$ 1,277	$ 666	$ 244	$ 902	$ 198	$ 4,060
Loans:							
Individually evaluated for impairment	$ 2,326	$ 2,797	$ -	$ -	$ 650	$ 37	$ 5,810
Collectively evaluated for impairment	129,494	167,990	60,757	34,888	93,858	22,186	509,173
Total	$131,820	$ 170,787	$ 60,757	$ 34,888	$ 94,508	$ 22,223	$514,983

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.

All other loans are deemed to be unimpaired and are grouped into various homogeneous risk pools utilizing regulatory reporting classifications. The Bank's historical loss factors are calculated for each of these risk pools based on the 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 applied to the unimpaired loan risk pools. These adjustments may include, among other things, changes in loan policy, loan administration, loan, geographic, or industry concentrations, loan growth rates, and experience levels of our lending officers. The loss allocations for specifically impaired loans, smaller impaired loans not specifically measured for impairment, and unimpaired loans are totaled to determine the total required allowance for loan losses. This total is compared to the current allowance on the Bank's books and adjustments made accordingly by a charge or credit to the provision for loan losses.

The following table presents impaired loans by class of loans as of March 31, 2018 (amounts in thousands). Purchased credit-impaired loans are not included in these tables because they are carried at fair value and accordingly have no related associated allowance.

Nonaccruing Impaired Loans	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Mortgage loans on real estate:					
Residential	$ 1,415	$ 1,415	$ -	$ 1,415	$ 524
Commercial real estate	494	322	322	-	-
Construction and land development	-	-	-	-	-
Total mortgage loans on real estate	1,909	1,737	322	1,415	524
Home equity lines of credit	-	-	-	-	-
Commercial loans	146	146	-	146	146
Consumer loans	204	54	54	-	-
Total Loans	$ 2,259	$ 1,937	$ 376	$ 1,561	$ 670

Accruing Impaired Loans	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Mortgage loans on real estate:					
Residential	$ 826	$ 826	$ 826	$ -	$ -
Commercial real estate	1,944	1,944	530	1,414	176
Construction and land development	229	166	-	166	15
Total mortgage loans on real estate	2,999	2,936	1,356	1,580	191
Home equity lines of credit	100	100	100	-	-
Commercial loans	150	150	125	25	25
Consumer loans	31	31	-	31	9
Total Loans	$ 3,280	$ 3,217	$ 1,581	$ 1,636	$ 225

Total Impaired Loans	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Mortgage loans on real estate:					
Residential	$ 2,241	$ 2,241	$ 826	$ 1,415	$ 524
Commercial real estate	2,438	2,266	852	1,414	176
Construction and land development	229	166	-	166	15
Total mortgage loans on real estate	4,908	4,673	1,678	2,995	715
Home equity lines of credit	100	100	100	-	-
Commercial loans	296	296	125	171	171
Consumer loans	235	85	54	31	9
Total Loans	$ 5,539	$ 5,154	$ 1,957	$ 3,197	$ 895

The following table presents impaired loans by class of loans as of December 31, 2017 (amounts in thousands). Purchased credit-impaired loans are not included in these tables because they are carried at fair value and accordingly have no related associated allowance.

Nonaccruing Impaired Loans	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Mortgage loans on real estate:					
Residential	$ 1,767	$ 1,767	$ 350	$ 1,417	$ 526
Commercial real estate	500	328	328	-	-
Construction and land development	-	-	-	-	-
Total mortgage loans on real estate	2,267	2,095	678	1,417	526
Home equity lines of credit	-	-	-	-	-
Commercial loans	-	-	-	-	-
Consumer loans	204	54	54	-	-
Total Loans	$ 2,471	$ 2,149	$ 732	$ 1,417	$ 526

Accruing Impaired Loans	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Mortgage loans on real estate:					
Residential	$ 844	$ 844	$ 844	$ -	$ -
Commercial real estate	1,968	1,967	540	1,427	187
Construction and land development	232	168	-	168	11
Total mortgage loans on real estate	3,044	2,979	1,384	1,595	198
Home equity lines of credit	100	100	100	-	-
Commercial loans	300	301	127	174	174
Consumer loans	33	33	-	33	10
Total Loans	$ 3,477	$ 3,413	$ 1,611	$ 1,802	$ 382

Total Impaired Loans	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Mortgage loans on real estate:					
Residential	$ 2,611	$ 2,611	$ 1,194	$ 1,417	$ 526
Commercial real estate	2,468	2,295	868	1,427	187
Construction and land development	232	168	-	168	11
Total mortgage loans on real estate	5,311	5,074	2,062	3,012	724
Home equity lines of credit	100	100	100	-	-
Commercial loans	300	301	127	174	174
Consumer loans	237	87	54	33	10
Total Loans	$ 5,948	$ 5,562	$ 2,343	$ 3,219	$ 908

The following table presents the average recorded investment in impaired loans and the interest income recognized on impaired loans in the three months ended March 31, 2018 and 2017 by loan category (amounts in thousands).

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Average Recorded Investment	Ending Recorded Investment	Interest Income	Average Recorded Investment	Ending Recorded Investment	Interest Income
Mortgage loans on real estate:						
Residential real estate	$ 2,249	$ 2,241	$ 12	$ 1,720	$ 2,326	$ 18
Commercial real estate	2,281	2,266	23	3,562	2,797	25
Construction and land development	167	166	2	15	-	-
Total mortgage loans on real estate	4,697	4,673	37	5,297	5,123	43
Home equity lines of credit	100	100	1	50	-	1
Commercial loans	298	296	2	577	650	6
Consumer loans	86	85	-	19	37	-
Total Loans	$ 5,181	$ 5,154	$ 40	$ 5,943	$ 5,810	$ 50

The following tables present the aging of loans and non-accrual loan balances as of March 31, 2018 and December 31, 2017, by class of loans (amounts in thousands).

	Accruing Loans				
As of March 31, 2018	Current	30-89 Days Past Due	90+ Days Past Due	Nonaccrual Loans	Total Loans
Mortgage loans on real estate:					
Residential	$ 140,727	$ 988	$ 51	$ 1,865	$ 143,631
Commercial real estate	185,566	42	-	322	185,930
Construction and land development	75,499	792	-	26	76,317
Total mortgage loans on real estate	401,792	1,822	51	2,213	405,878
Home equity lines of credit	36,105	26	-	79	36,210
Commercial loans	116,808	477	-	171	117,456
Consumer loans	22,989	79	24	111	23,203
Total Loans	$ 577,694	$ 2,404	$ 75	$ 2,574	$ 582,747

	Accruing Loans				
As of December 31, 2017	Current	30-89 Days Past Due	90+ Days Past Due	Nonaccrual Loans	Total Loans
Mortgage loans on real estate:					
Residential	$ 134,565	$ 857	$ 410	$ 1,890	$ 137,722
Commercial real estate	180,826	-	-	399	181,225
Construction and land development	66,275	221	-	68	66,564
Total mortgage loans on real estate	381,666	1,078	410	2,357	385,511
Home equity lines of credit	35,591	152	10	80	35,833
Commercial loans	105,081	728	-	-	105,809
Consumer loans	22,906	175	1	149	23,231
Total Loans	$ 545,244	$ 2,133	$ 421	$ 2,586	$ 550,384

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 March 31, 2018 and December 31, 2017, and based on the most recent analysis performed as of those dates, the risk category of loans by class of loans is as follows (amounts in thousands):

As of March 31, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential	$ 139,392	$ 1,252	$ 2,987	$ -	$ 143,631
Commercial real estate	180,482	4,220	1,228	-	185,930
Construction and land development	75,501	638	178	-	76,317
Total mortgage loans on real estate	395,375	6,110	4,393	-	405,878
Home equity lines of credit	35,995	14	201	-	36,210
Commercial loans	114,849	2,123	484	-	117,456
Consumer loans	22,842	79	282	-	23,203
Total Loans	$ 569,061	$ 8,326	$ 5,360	$ -	$ 582,747

As of December 31, 2017	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential	$ 132,914	$ 1,390	$ 3,418	$ -	$ 137,722
Commercial real estate	175,208	4,238	1,779	-	181,225
Construction and land development	65,656	750	158	-	66,564
Total mortgage loans on real estate	373,778	6,378	5,355	-	385,511
Home equity lines of credit	35,580	14	203	36	35,833
Commercial loans	103,137	2,234	438	-	105,809
Consumer loans	22,865	58	308	-	23,231
Total Loans	$ 535,360	$ 8,684	$ 6,304	$ 36	$ 550,384

Note 5 – Fair Value Measurements and Disclosures

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans 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

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

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

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

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

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 and mortgage loans held-for-sale – The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for 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. These methods include 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 March 31, 2018 and December 31, 2017, impaired loans were evaluated based on the fair value of the collateral. Impaired loans for which an allowance is established based on the fair value of collateral, or loans that were charged down according to the fair value of collateral, require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price, the Company records the impaired loan as nonrecurring Level 2. When the fair value is based on an appraised value, the Company records the impaired loan as nonrecurring Level 3.

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

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.

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

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

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.

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

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

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

Federal funds purchased - For disclosure purposes, the fair value of federal funds purchased is the carrying value.

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

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

Assets and liabilities measured at fair value on a recurring basis - The only assets and liabilities measured at fair value on a recurring basis are our securities available-for-sale. There were no transfers between levels during the period. Information related to the Company's assets and liabilities measured at fair value on a recurring basis at March 31, 2018 and December 31, 2017 is as follows: (amounts in thousands)

	Fair Value Measurements At Reporting Date Using:			
March 31, 2018	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale:				
Residential mortgage -backed	$ 100,261	$ -	$ 100,261	$ -
U.S. government sponsored enterprises	9,432	-	9,432	-
State, county, and municipal	35,673	-	35,673	-
Corporate debt obligations	1,314	-	1,314	-
Totals	$ 146,680	$ -	$ 146,680	$ -

	Fair Value Measurements At Reporting Date Using:			
December 31, 2017	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale:				
Residential mortgage -backed	$ 122,972	$ -	$ 122,972	$ -
U.S. government sponsored enterprises	12,999	-	12,999	-
State, county, and municipal	55,501	-	55,501	-
Corporate debt obligations	$ 1,817	-	1,817	-
Totals	$ 193,289	$ -	$ 193,289	$ -

Assets measured at fair value on a nonrecurring basis – The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of March 31, 2018 and December 31, 2017 (amounts in thousands):

	Fair Value Measurements At Reporting Date Using:			
March 31, 2018	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 4,259	$ -	$ -	$ 4,259
Foreclosed assets	1,677	-	-	1,677
Totals	$ 5,936	$ -	$ -	$ 5,936

December 31, 2017	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 4,654	$ -	$ -	$ 4,654
Foreclosed assets	1,546	-	-	1,546
Totals	$ 6,200	$ -	$ -	$ 6,200

The Company has estimated the fair values of these assets using Level 3 inputs, specifically the appraised value of the collateral. Impaired loan balances represent those collateral dependent impaired loans where management has estimated the credit loss by comparing the loan's carrying value against the expected realizable fair value of the impaired loan for the amount of the credit loss.

The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments as of March 31, 2018 and December 31, 2017 are as follows (amounts in thousands):

		Estimated Fair Value		
March 31, 2018	Carrying Amount	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 28,981	$ 28,981	$ -	$ -
Certificates of deposit in banks	2,992	-	2,992	-
Securities available-for-sale	146,680	-	146,680	-
Loans held-for-sale	3,737	-	3,737	-
Restricted equity securities	1,547	-	-	1,547
Loans receivable	574,390	-	565,410	4,259
Bank owned life insurance	20,131	-	20,131	-
Accrued interest receivable	2,129	-	2,129	-
Financial liabilities:				
Deposits	700,057	-	669,697	-
Accrued interest payable	127	-	127	-
Securities sold under agreements to repurchase	13,139	-	13,139	-
Federal Home Loan Bank advances	10,000	-	10,000	-
Note payable	5,089	-	5,089	-

		Estimated Fair Value		
December 31, 2017	Carrying Amount	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 15,558	$ 15,558	$ -	$ -
Certificates of deposit in banks	5,214	-	5,214	-
Securities available-for-sale	193,289	-	193,289	-
Loans held-for-sale	3,858	-	3,858	-
Restricted equity securities	1,259	-	-	1,259
Loans receivable	542,240	-	536,701	4,654
Bank owned life insurance	19,991	-	19,991	-
Accrued interest receivable	2,499	-	2,499	-
Financial liabilities:				
Deposits	699,861	-	675,871	-
Accrued interest payable	121	-	121	-
Securities sold under agreements to repurchase	13,865	-	13,865	-
Federal Home Loan Bank advances	10,000	-	9,997	-
Federal funds purchased	1,153		1,153	
Note payable	5,357	-	5,357	-

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 March 31, 2018 and December 31, 2017.

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

Note 6 – Recently Issued Accounting Pronouncements

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's revenue is significantly weighted towards net interest income on financial assets and liabilities, which is explicitly excluded from the scope of the new standard, and noninterest income has not been as significant. The Company is continuing to assess its revenue streams and reviewing its contracts with customers that are potentially affected by the new guidance including fees on deposits, gains and losses on the sale of other real estate owned, credit and debit card interchange fees, and credit card revenue, to determine the potential impact the new guidance is expected to have on the Company's consolidated financial statements. However, the Company's revenue recognition pattern for these revenue streams is not expected to change materially from current practice. Consequently, the Company does not expect the adoption of this ASU to have a material impact on its financial statements.

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 does not expect the impact of this ASU to have a material effect 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.

In January 2017, FASB issued ASU 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” ASU 2017-04 simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. In computing the implied fair value of goodwill under Step 2, an entity, prior to the amendments in ASU 2017-04, had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities, in accordance with the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. However, under the amendments in ASU 2017-04, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, ASU 2017-04 removes the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails such qualitative test, to perform Step 2 of the goodwill impairment test. ASU 2017-04 is effective prospectively for annual, or any interim, goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company adopted ASU 2017-04 in 2017 and based on the Company’s annual goodwill impairment test performed as of December 31, 2017 under ASU 2017-04, the fair value of its reporting units exceeded the carrying value and, therefore, the related goodwill was not impaired.

In March 2017, the FASB issued ASU 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities. The amendments shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company does not believe that this ASU will have an impact on its financial position or results of operations.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting. The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The guidance is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. The Company does not expect the impact to its consolidated financial statements upon adoption to be material.

In February 2018, FASB issued ASU 2018-02, “Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” ASU 2018-02 seeks to help entities reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017, enacted on December 22, 2017. ASU 2018-02 was issued in response to concerns regarding current guidance in GAAP that requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date, even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income (loss), rather than net income, and as a result the stranded tax effects would not reflect the appropriate tax rate. The amendments of ASU 2018-02 allow an entity to make a reclassification from accumulated other comprehensive income (loss) to retained earnings for the stranded tax effects, which is the difference between the historical corporate income tax rate of 34% and the newly enacted corporate income tax rate of 21%. ASU 2018-02 is effective for fiscal years beginning after December 31, 2018; however, public business entities are allowed to early adopt the amendments of ASU 2018-02. As a result of the re-measurement of the Company’s deferred tax assets following the enactment of the Tax Reform Act, accumulated other comprehensive loss included $333 thousand of stranded tax effects at December 31, 2017. The Company early adopted the amendments of 2018-02 as of December 31, 2017 and made the election to reclassify the stranded tax effects from accumulated other comprehensive loss to retained earnings at December 31, 2017.

Note 7 – Defined Contribution Plan

The Company provides a 401(k) employee stock ownership plan (KSOP), which covers substantially all of the Company’s employees who are eligible, as to age and length of service. A participant may elect to make contributions up to $18.5 thousand and $18 thousand of the participant’s annual compensation in 2018 and 2017, respectively. The Company makes contributions up to 3% of each participant’s annual compensation and the Company matches 50% of the next 2% contributed by the employee. Contributions to the plan by Company were approximately $96 thousand and $95 thousand for the three months ended March 31, 2018 and 2017, respectively. Outstanding shares of the Company’s common stock allocated to participants at March 31, 2018 and December 31, 2017 totaled 53,715, and there were no unallocated shares. These shares are treated as outstanding for purposes of calculating earnings per share and dividends on these shares are included in the Consolidated Statements of Stockholders’ Equity.

The Company’s KSOP includes a put option for shares of the Company’s common stock distributed from the KSOP. Shares are distributed from the KSOP primarily to separated vested participants and certain eligible participants who elect to diversify their account balances. Since the Company’s common stock is not currently traded on an established securities market, if the owners of distributed shares desire to sell their shares, the Company is required to purchase the shares at fair value during two put option periods following the distribution of the shares from the KSOP. The first put option period is within sixty days following the distribution of the shares from the KSOP. The second put option period begins on the first day of the fifth month of the plan year for a sixty day period. The fair value of distributed shares subject to the put option totaled $0 as of March 31, 2018 and December 31, 2017. The cost of the KSOP shares totaled $950 thousand as of March 31, 2018 and December 31, 2017. Due to the Company’s obligation under the put option, the distributed shares and KSOP shares are classified as temporary equity in the mezzanine section of the consolidated statements of financial condition and totaled $950 thousand as of March 31, 2018 and December 31, 2017. The fair value of the KSOP shares totaled $1.32 million as of March 31, 2018 and December 31, 2017.

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, 2017, which are contained in the Annual Report on Form 10-K for the year ended December 31, 2017. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from our expectations. Factors that could cause such differences are discussed in our 2017 Annual Report on Form 10-K under "Part I, Item 1A - Risk Factors." We assume no obligation to update any of these forward-looking statements.

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

All dollar amounts in the tables in this section are in 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

We are a bank holding company headquartered in Prattville, Alabama. We engage in the business of banking through our wholly-owned banking subsidiary, River Bank & Trust, which we may refer to as the "Bank," or "River Bank." Through the Bank, we provide a broad array of financial services to businesses, business owners, professionals, and consumers. As of March 31, 2018, we operated ten full-service banking offices in Alabama in the cities of Montgomery, Prattville, Millbrook, Wetumpka, Auburn, Opelika, Gadsden and Alexander City. We also operate one loan production office in Daphne, Alabama.

Segments

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

Overview of First Quarter 2018 Results

Net income was $2.26 million in the quarter ended March 31, 2018, compared with $2.23 million in the quarter ended March 31, 2017. Several significant measures from the 2018 first quarter include:

- Net interest margin (taxable equivalent) of 4.11%, compared with 4.06% for the first quarter of 2017.
- Net interest income increase of $235 thousand for the quarter ended March 31, 2018, representing a 3.24% rate of increase over the quarter ended March 31, 2017.
- Annualized return on average earning assets for the quarter ended March 31, 2018 of 1.21% compared with 1.21% for the quarter ended March 31, 2017.
- Annualized return on average equity for the quarter ended March 31, 2018 of 10.10% compared with 10.67% for the quarter ended March 31, 2017.
- Loan increase of $32.7 million during the quarter, representing a 23.87% annualized growth rate.
- Securities available-for-sale decrease of $46.6 million during the quarter, representing a 24.11% decrease for the quarter.
- Deposit increase of $196 thousand during the quarter, representing a 0.11% annualized growth rate.
- Stockholders' equity decrease of $638 thousand during the quarter representing a -2.87% annualized growth rate.
- Book value per share of $17.43 at March 31, 2018, compared with $17.64 per share at December 31, 2017.
- Tangible book value per share of $15.19 at March 31, 2018, compared with $15.37 at December 31, 2017.

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, 2017, 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, 2017, 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.

<u>Comparison of the Results of Operations for the three months ended March 31, 2018 and 2017</u>

The following is a narrative discussion and analysis of significant changes in our results of operations for the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

Net Income

During the three months ended March 31, 2018, our net income was $2.26 million, compared to $2.23 million for the three months ended March 31, 2017, an increase of $30 thousand, or 1.35%.

The primary reason for the increase in net income for the first quarter of 2018 as compared to the first quarter of 2017 was an increase in net interest income and an increase in noninterest income. During the three months ended March 31, 2018, net interest income was $7.49 million compared to $7.25 million for the three months ended March 31, 2017, an increase of $235thousand, or 3.24%. This increase is a result of higher levels of loan volume and other earning assets from organic growth. Total noninterest income for the first quarter of 2018 was $1.47 million compared to $1.31 million for the quarter ended March 31, 2017. This increase was primarily the result of an increase of $45 thousand and $61 thousand in other noninterest income and revenue from service charges and fees, respectively. Total noninterest expense in the first quarter of 2018 increased $693 thousand, or 14.15%, from the first quarter of 2017. This increase was due to an increase of $652 thousand and $75 thousand in salaries and employee benefits and equipment rentals, depreciation, and maintenance expense, respectively. These increases were partially offset by decreases across several expense categories.

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 March 31, 2018 and 2017

The following table shows, for the three months ended March 31, 2018 and 2017, the average balances of each principal category of our earning assets and interest bearing liabilities and the average taxable equivalent yields on assets and average costs of liabilities. These yields and costs are calculated by dividing the income or expense by the average daily balance of the associated assets or liabilities (amounts in thousands).

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Average Balance	Interest Income/ Expense	Average Yield/Rate	Average Balance	Interest Income/ Expense	Average Yield/Rate
Interest earning assets						
Loans	$ 564,571	$ 7,320	5.26%	$ 511,094	$ 6,812	5.41%
Mortgage loans held for sale	3,406	25	2.98%	4,671	3	0.26%
Investment securities:						
Taxable securities	126,083	625	2.01%	138,253	701	2.06%
Tax-exempt securities	40,346	258	2.59%	54,993	420	3.10%
Interest bearing balances in other banks	10,580	44	1.69%	25,445	64	1.02%
Total interest earning assets	$ 744,986	$ 8,272	4.50%	$ 734,456	$ 8,000	4.42%
Interest bearing liabilities						
Interest bearing transaction accounts	$ 189,166	$ 113	0.24%	$ 193,946	$ 115	0.24%
Savings and money market accounts	187,297	159	0.34%	192,248	169	0.35%
Time deposits	135,595	310	0.93%	138,503	235	0.68%
Short-term debt	13,640	10	0.30%	12,296	5	0.16%
Federal Home Loan Bank advances	16,444	61	1.50%	-	-	0.00%
Note payable	5,354	60	4.54%	6,426	61	3.76%
Total interest bearing liabilities	$ 547,496	$ 713	0.53%	$ 543,419	$ 585	0.43%
Noninterest-bearing funding of earning assets	197,490	-	0.00%	191,037	-	0.00%
Total cost of funding earning assets	$ 744,986	$ 713	0.39%	$ 734,456	$ 585	0.32%
Net interest rate spread			3.97%			3.98%
Net interest income/margin (taxable equivalent)		$ 7,559	4.11%		$ 7,415	4.06%
Tax equivalent adjustment		(73)			(164)	
Net interest income/margin		$ 7,486	4.08%		$ 7,251	3.97%

The following table reflects, for the three months ended March 31, 2018 and 2017, the changes in our net interest income due to variances in the volume of interest earning assets and interest bearing liabilities and variances in the associated rates earned or paid on these assets and liabilities (amounts in thousands).

	Three Months Ended March 31, 2018 vs. Three Months Ended March 31, 2017		
	Volume	Variance due to Yield/Rate	Total
Interest earning assets			
Loans	$ 717	$ (209)	$ 508
Mortgage loans held for sale	(1)	23	22
Investment securities:			
Taxable securities	(60)	(16)	(76)
Tax-exempt securities	(110)	(52)	(162)
Interest bearing balances in other banks	(38)	18	(20)
Federal funds sold	-	-	-
Total interest earning assets	$ 508	$ (236)	$ 272
Interest bearing liabilities			
Interest bearing transaction accounts	$ (2)	$ -	$ (2)
Savings and money market accounts	(5)	(5)	(10)
Time deposits	(7)	82	75
Short-term debt	-	5	5
Federal Home Loan Bank advances	-	61	61
Note payable	(12)	11	(1)
Total interest bearing liabilities	$ (26)	$ 154	$ 128
Net interest income			
Net interest income (taxable equivalent)	$ 534	$ (390)	$ 144
Taxable equivalent adjustment	(99)	190	91
Net interest income	$ 435	$ (200)	$ 235

Total interest income for the three months ended March 31, 2018 was $8.2 million and total interest expense was $713 thousand, resulting in net interest income of $7.49 million for the period. For the same period of 2017, total interest income was $7.8 million and total interest expense was $585 thousand, resulting in net interest income of $7.25 million for the period. This represents a 3.24% increase in net interest income when comparing the same period from 2018 and 2017. When comparing the variances related to interest income for the three months ended March 31, 2018 and 2017, the increase was primarily attributed to increases in average volumes in loans. The volume related increase in interest income for the three months ended March 31, 2018 was offset by a decrease in the yield on loans and investment securities. When comparing variances related to interest expense for the three months ended March 31, 2018 and 2017, the increase resulted primarily from an increase in the effective rates paid on time deposit accounts.

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 March 31, 2018, management recorded a provision of $480 thousand in the first quarter of 2018 compared to a provision of $360 thousand in the first quarter of 2017. The increase in the provision was primarily related to the increase in loans from March 31, 2017 to March 31, 2018.

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 March 31, 2018, the recorded allowance related to impaired loans was $895 thousand. As of March 31, 2017, the recorded allowance related to impaired loans was $1.1 million.

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 (amounts in thousands).

	For the Three Months Ended March 31,	
	2018	2017
Service charges and fees	$ 760	$ 699
Investment brokerage revenue	42	25
Mortgage operations	410	409
Bank owned life insurance income	140	104
Net gain on sale of investment securities	2	-
Other noninterest income	115	70
Total noninterest income	$ 1,469	$ 1,307

Noninterest income for the three months ended March 31, 2018 was $1.47 million compared to $1.31 million for the same period in 2017. The increase of $36 thousand in bank owned life insurance income is a result of additional insurance policies that were purchased at the end of the prior year. The increase of $61 thousand in service charges and fees was primarily related to an increase in the number of deposit accounts and activity within the deposit accounts. The increase in other noninterest income of $45 thousand resulted from a $50 thousand incentive check received during the quarter ended March 31, 2018 that was not received until the second quarter of 2017.

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 (amounts in thousands).

	For the Three Months Ended March 31,	
	2018	2017
Salaries and employee benefits	$ 3,369	$ 2,717
Occupancy expenses	342	330
Equipment rentals, depreciation, and maintenance	258	183
Telephone and communications	49	55
Advertising and business development	120	115
Data processing	417	442
Foreclosed assets, net	23	38
Federal deposit insurance and other regulatory assessments	82	92
Legal and other professional services	110	126
Other operating expense	819	798
Total noninterest expense	$ 5,589	$ 4,896

Noninterest expense for the three months ended March 31, 2018 totaled $5.6 million compared with $4.9 million for the same period of 2017. The increase was primarily a result of increases in salaries and employee benefits expense and equipment rentals, depreciation, and maintenance expenses, but these increases were offset by continued expense reductions realized from the Keystone merger as systems and operations were consolidated. Salaries and employee benefits increased $652 thousand, or 24%, to $3.4 million in the first quarter of 2018 from $2.7 million in the first quarter of 2017. The number of full-time equivalent employees increased from approximately 134 at March 31, 2017 to approximately 147 at March 31, 2018 for an increase of approximately 9.70%. Equipment rentals, depreciation, and maintenance increased $75 thousand, or approximately 40.98%, in the first quarter of 2018 as compared to the first quarter of 2017 as a result of additional branches.

Provision for Income Taxes

We recognized income tax expense of $627 thousand for the three months ended March 31, 2018, compared to $1.1 million for the three months ended March 31, 2017. The effective tax rate for the three months ended March 31, 2018 was 21.7% compared to 32.5% for the same period in 2017. 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. The primary reason for the decrease in the effective tax rate was the Tax Cuts and Jobs Act of 2017, enacted on December 22, 2017 which lowered the corporate tax rate from 34% to 21%.

Comparison of Financial Condition at March 31, 2018 and December 31, 2017

Overview

Our total assets decreased $2.26million, or -0.27%, from December 31, 2017 to March 31, 2018. Loans, net of deferred fees and discounts, increased $32.7 million, or 5.97%, from December 31, 2017 to March 31, 2018. Securities available-for-sale decreased by $46.6 million, or -24.11%, from December 31, 2017 to March 31, 2018. Cash and cash equivalents increased $13.4 million, or 86.28% from December 31, 2017 to March 31, 2018 as funds were obtained from the sale of investment securities to fund loan growth. Total deposits increased $196 thousand, or 0.03%, from December 31, 2017. Federal Home Loan Bank advances were unchanged with $10 million at December 31, 2017 and March 31, 2018. Total stockholders' equity decreased $638 thousand, or -0.72% from December 31, 2017 to March 31, 2018 primarily due to the increase in the net unrealized loss on securities available-for-sale.

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 three months ended March 31, 2018, we did not purchase any investment securities, but sold investment securities with proceeds received of $35.9 million including net realized gains of $2 thousand.

The following tables summarize the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of securities available-for-sale at March 31, 2018 and December 31, 2017 (amounts in thousands).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018:				
Securities available-for-sale:				
Residential mortgage-backed	$ 104,666	$ -	$ (4,405)	$ 100,261
U.S. govt. sponsored enterprises	9,695	-	(263)	9,432
State, county, and municipal	36,100	83	(510)	35,673
Corporate debt obligations	1,383	-	(69)	1,314
Totals	$ 151,844	$ 83	$ (5,247)	$ 146,680

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017:				
Securities available-for-sale:				
Residential mortgage-backed	$ 125,768	$ 23	$ (2,819)	$ 122,972
U.S. govt. sponsored enterprises	13,176	8	(185)	12,999
State, county, and municipal	55,339	511	(349)	55,501
Corporate debt obligations	1,831	11	(25)	1,817
Totals	$ 196,114	$ 553	$ (3,378)	$ 193,289

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 $564.6 million during the three months ended March 31, 2018, or 75.8% of average interest earning assets, as compared to $511.1 million, or 69.6% of average interest earning assets, for the three months ended March 31, 2017. At March 31, 2018, total loans, net of deferred loan fees and discounts, were $579.8 million, compared to $547.1 million at December 31, 2017, an increase of $32.7 million, or 5.97%

The growth in average outstanding loans 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 March 31, 2018, and December 31, 2017.

	March 31, 2018		December 31, 2017	
	Amount	% of Total	Amount	% of Total
Residential real estate:				
Closed-end 1-4 family - first lien	$ 121,826	21.2%	$ 115,776	21.4%
Closed-end 1-4 family - junior lien	4,824	0.8%	4,969	0.9%
Multi-family	16,981	3.0%	16,977	3.1%
Total residential real estate	143,631	25.0%	137,722	25.4%
Commercial real estate:				
Nonfarm nonresidential	178,166	31.0%	173,443	32.0%
Farmland	7,764	1.4%	7,782	1.4%
Total commercial real estate	185,930	32.4%	181,225	33.4%
Construction and land development:				
Residential	34,658	6.0%	25,830	4.8%
Other	41,659	7.3%	40,734	7.5%
Total construction and land development	76,317	13.3%	66,564	12.3%
Home equity lines of credit	36,210	6.3%	35,833	6.6%
Commercial loans:				
Other commercial loans	103,487	18.0%	95,896	17.7%
Agricultural	1,283	0.2%	1,581	0.3%
State, county, and municipal loans	12,686	2.2%	8,332	1.5%
Total commercial loans	117,456	20.4%	105,809	19.5%
Consumer loans	23,203	4.0%	23,231	4.3%
Total gross loans	582,747	101.4%	550,384	101.5%
Allowance for loan losses	(5,387)	-0.9%	(4,881)	-0.9%
Net deferred loan fees and discounts	(2,970)	-0.5%	(3,263)	-0.6%
Net loans	$ 574,390	100.0%	$ 542,240	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, and construction and land development loans. At March 31, 2018, this category totaled $405.9 million, or 69.65% of total gross loans, compared to $385.5 million, or 70.04%, at December 31, 2017. Real estate loans increased $20.4 million, or 5.28%, during the period December 31, 2017 to March 31, 2018. Commercial loans increased $11.6 million, or 11.01% 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 thousand, 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 thousand 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 or loan relationship.

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, geographic, or industry concentrations, loan growth rates, and experience levels of our lending officers. The loss allocations for specifically impaired loans, smaller impaired loans not specifically measured for impairment, and unimpaired loans are totaled to determine the total required allowance for loan losses. This total is compared to the current allowance on the Bank's books and adjustments made accordingly by a charge or credit to the provision for 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 (amounts in thousands).

	As of and for the Three Months Ended: March 31, 2018	As of and for the Three Months Ended: March 31, 2017
Allowance for loan losses at beginning of period	$ 4,881	$ 4,007
Charge-offs:		
Mortgage loans on real estate:		
Residential real estate	-	-
Commercial real estate	-	-
Construction and land development	-	115
Total mortgage loans on real estate	-	115
Home equity lines of credit	-	107
Commercial	40	24
Consumer	30	88
Total	70	334
Recoveries:		
Mortgage loans on real estate:		
Residential real estate	-	-
Commercial real estate	3	-
Construction and land development	22	3
Total mortgage loans on real estate	25	3
Home equity lines of credit	2	1
Commercial	66	22
Consumer	3	1
Total	96	27
Net charge-offs (recoveries)	(26)	307
Provision for loan losses	480	360
Allowance for loan losses at end of period	$ 5,387	$ 4,060
Total loans outstanding, net of deferred loan fees	579,777	510,095
Average loans outstanding, net of deferred loan fees	564,571	511,094
Allowance for loan losses to period end loans	0.93%	0.80%
Net charge-offs (recoveries) to average loans (annualized)	-0.02%	0.24%

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 (amounts in thousands).

	March 31, 2018		December 31, 2017	
	Amount	Percent of Total	Amount	Percent of Total
Mortgage loans on real estate:				
Residential	$ 1,232	22.9%	$ 1,167	23.9%
Commercial real estate	1,729	32.1%	1,604	32.9%
Construction and land development	738	13.7%	606	12.4%
Total mortgage loans on real estate	3,699	68.7%	3,377	69.2%
Home equity lines of credit	381	7.1%	333	6.8%
Commercial	1,097	20.4%	954	19.5%
Consumer	210	3.9%	217	4.5%
Total	$ 5,387	100.1%	$ 4,881	100.0%

Nonperforming Assets

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

	March 31, 2018	March 31, 2017	December 31, 2017
Nonaccrual loans	$ 2,574	$ 2,910	$ 2,586
Accruing loans past due 90 days or more	75	206	421
Total nonperforming loans	2,649	3,116	3,007
Foreclosed assets	1,677	3,196	1,546
Total nonperforming assets	$ 4,326	$ 6,312	$ 4,553
Allowance for loan losses to period end loans	0.93%	0.80%	0.89%
Allowance for loan losses to period end nonperforming loans	203.36%	130.30%	162.32%
Net charge-offs (recoveries) to average loans (annualized)	-0.02%	0.24%	0.17%
Nonperforming assets to period end loans and foreclosed property	0.74%	1.23%	0.83%
Nonperforming loans to period end loans	0.46%	0.61%	0.55%
Nonperforming assets to total assets	0.53%	0.78%	0.55%
Period end loans	579,777	510,095	547,121
Period end total assets	821,036	808,792	823,292
Allowance for loan losses	5,387	4,060	4,881
Average loans for the period	564,571	511,094	517,822
Net charge-offs for the period	(26)	307	866
Period end loans plus foreclosed property	581,454	513,291	548,667

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 March 31, 2018, and December 31, 2017.

	March 31, 2018		December 31, 2017	
	Amount	Percent of Total	Amount	Percent of Total
Demand deposits, non-interest bearing	$ 180,399	25.8%	$ 185,171	26.5%
Demand deposits, interest bearing	194,739	27.8%	195,792	28.0%
Money market accounts	159,824	22.7%	153,732	22.0%
Savings deposits	30,554	4.4%	29,441	4.2%
Time certificates of $250 thousand or more	37,487	5.4%	37,045	5.3%
Other time certificates	97,054	13.9%	98,680	14.0%
Totals	$ 700,057	100.0%	$ 699,861	100.0%

Total deposits were $700 million at March 31, 2018, an increase of $196 thousand from December 31, 2017 with the increase resulting mainly in the balances of money market accounts. The following table presents the Bank's time certificates of deposits by various maturities as of March 31, 2018 (amounts in thousands).

	All Time Deposits	Time Deposits $100 or more	Time Deposits less than $100
Three months or less	$ 21,841	$ 12,606	$ 9,235
Greater than three months through six months	24,340	16,378	7,962
Greater than six months through one year	34,867	20,380	14,487
Greater than one year through three years	33,095	21,382	11,713
Greater than three years	20,398	15,568	4,830
Total	$ 134,541	$ 86,314	$ 48,227

Other Funding Sources

We supplement our deposit funding with wholesale funding when needed for balance sheet planning and management or when the terms are attractive and will not disrupt our offering rates in our markets. A source we have used for wholesale funding is the Federal Home Loan Bank of Atlanta (FHLB). The line of credit with the FHLB is secured by pledges of various loans in our loan portfolio. At March 31, 2018, the FHLB line of credit available was $107 million and at December 31, 2017 it was $99.5 million. As of March 31, 2018 we have $10 million of Federal Home Loan Bank Advances outstanding compared to $10 million at December 31, 2017. We also have lines of credit for federal funds borrowings with other banks that totaled $28.5 million at March 31, 2018 and December 31, 2017. Furthermore, we have pledged certain loans to the Federal Reserve Bank (FRB) to secure a line of credit. At March 31, 2018, the FRB line of credit available was $84.3 million and at December 31, 2017, the FRB line of credit available was $69.4 million. 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.

The Company borrowed $7.5 million 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 thousand 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 March 31, 2018 and December 31, 2017, were $29 million and $15.6 million, respectively. Based on recorded cash and cash equivalents, management believes River Financial Corporation's liquidity resources were sufficient at March 31, 2018 to fund loans and meet other cash needs as necessary.

Off-Balance Sheet Arrangements

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

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

Financial instruments whose contract amount represents credit risk at March 31, 2018 and December 31, 2017 were as follows (amounts in thousands):

	March 31, 2018	December 31, 2017
Commitments to extend credit	$ 141,189	$ 142,878
Stand-by and performance letters of credit	2,228	2,268
Total	$ 143,417	$ 145,146

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 March 31, 2018 (amounts in thousands).

	Due in 1 year or less	Due after 1 through 3 years	Due after 3 through 5 years	Due after 5 years	Total
Federal Home Loan Bank advances	$ 10,000	$ -	$ -	$ -	$ 10,000
Certificates of deposit of less than $100	31,684	11,713	4,830	-	48,227
Certificates of deposit of $100 or more	49,364	21,382	15,568	-	86,314
Securities sold under agreements to repurchase	13,139	-	-	-	13,139
Note payable	1,071	2,143	1,875	-	5,089
Operating leases	564	1,089	1,031	1,359	4,043
Total contractual obligations	$ 105,822	$ 36,327	$ 23,304	$ 1,359	$ 166,812

Capital Position and Dividends

At March 31, 2018 and December 31, 2017, total stockholders' equity was $88.4 million and $89.0 million, respectively. The decreased of $638 thousand resulted mainly from the net change in retained earnings and other comprehensive income for the three months ended March 31, 2018. Retained earnings for the first three months of 2018 increased $825 thousand and other comprehensive income decreased $1.77 million. The ratio of stockholders' equity to total assets was 10.76% and 10.81% at March 31, 2018 and December 31, 2017, 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 1capital, 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 March 31, 2018, 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 March 31, 2018 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 March 31, 2018:

	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)	$ 90,817	14.075%	$ 63,719	>= 9.875%	$ 64,526	>= 10.00%
Common Equity Tier 1 Capital (To Risk-Weighted Assets)	85,431	13.240%	41,136	>= 6.375%	41,942	>= 6.50%
Tier 1 Capital (To Risk-Weighted Assets)	85,431	13.240%	50,815	>= 7.875%	51,621	>= 8.00%
Tier 1 Capital (To Average Assets)	85,431	10.677%	32,006	>= 4.000%	40,007	>= 5.00%

Management believes, as of December 31, 2017, 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, 2017 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, 2017:

	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)	$ 89,604	14.325%	$ 57,859	>= 9.250%	$ 62,551	>= 10.00%
Common Equity Tier 1 Capital (To Risk-Weighted Assets)	84,724	13.545%	35,967	>= 5.750%	40,658	>= 6.50%
Tier 1 Capital (To Risk-Weighted Assets)	84,724	13.545%	45,349	>= 7.250%	50,040	>= 8.00%
Tier 1 Capital (To Average Assets)	84,724	10.429%	32,497	>= 4.000%	40,621	>= 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 March 31, 2018, the maximum amount the Bank could dividend to River Financial Corporation without prior regulatory authority approval was approximately $14.1 million. In addition to dividend restrictions, federal statutes prohibit unsecured loans from banks to bank holding companies.

During the three months ending March 31, 2018 there were 2,000 incentive stock options issued with a weighted average exercise price of $23.63 per share. During the same period, there were 26,250 incentive stock options exercised at a weighted average exercise price of $11.01 per share. A total of 244,125 incentive stock options were outstanding as of March 31, 2018 with a weighted average exercise price of $15.24 per share and a weighted average remaining life of 6.09 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 March 31, 2018, assuming the relevant assets and liabilities are collected and paid, respectively, based upon historical experience rather than their stated maturities (amounts in thousands).

	0-1 Mos	1-3 Mos	3-12 Mos	1-2 Yrs	2-3 Yrs	>3 Yrs	Total
Interest earning assets							
Loans	$137,586	$ 33,839	$123,770	$ 90,982	$ 70,295	$123,305	$579,777
Securities	2,176	7,185	17,182	18,647	15,050	86,440	146,680
Certificates of deposit in banks	250	-	249	-	250	2,243	2,992
Cash balances in banks	16,476	-	-	-	-	-	16,476
Total interest earning assets	$156,488	$ 41,024	$141,201	$109,629	$ 85,595	$211,988	$745,925
Interest bearing liabilities							
Interest bearing transaction accounts	$ 80,084	$ 3,896	$ 17,263	$ 23,374	$ 23,374	$ 46,748	$194,739
Savings and money market accounts	106,489	3,428	15,740	20,568	20,568	23,585	190,378
Time deposits	8,834	13,355	58,860	25,819	7,276	20,397	134,541
Securities sold under agreements to repurchase	13,139	-	-	-	-	-	13,139
Federal Home Loan Bank advances	10,000	-	-	-	-	-	10,000
Note payable	-	268	804	1,072	1,072	1,873	5,089
Total interest bearing liabilities	$218,546	$ 20,947	$ 92,667	$ 70,833	$ 52,290	$ 92,603	$547,886
Interest sensitive gap							
Period gap	$ (62,058)	$ 20,077	$ 48,534	$ 38,796	$ 33,305	$119,385	$198,039
Cumulative gap	$ (62,058)	$(41,981)	$ 6,553	$ 45,349	$ 78,654	$198,039	
Cumulative gap - Rate Sensitive Assets/ Rate Sensitive Liabilities	-8.3%	-5.6%	0.9%	6.1%	10.5%	26.5%	

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

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

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

	Impact on net interest income	
	As of March 31, 2018	As of December 31, 2017
Change in prevailing rates:		
+ 400 basis points	2.21%	(1.37)%
+ 300 basis points	1.95%	(0.53)%
+ 200 basis points	1.57%	(0.02)%
+ 100 basis points	9.20%	0.30%
+ 0 basis points	-	-
- 100 basis points	(4.28)%	(4.51)%
- 200 basis points	(11.77)%	(10.54)%
- 300 basis points	(16.12)%	(12.82)%
- 400 basis points	(17.34)%	(13.80)%

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 three months ended March 31, 2018 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, 2017 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

In 2017, at year end the Company sold 12,967 shares for cash to its employee stock ownership plan. The Company relied upon exemptions from registration under SEC Rule 701 and 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.

Index to Exhibits

The following is an index of exhibits including items incorporated by reference:

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.
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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: May 9, 2018

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

Date: May 9, 2018

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

Exhibit 31.1

CERTIFICATION

I, James M. Stubbs, certify that:

1. I have reviewed this report on Form 10-Q of River Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this period report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated history, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

RIVER FINANCIAL CORPORATION

May 9, 2018

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

Exhibit 31.2

CERTIFICATION

I, Kenneth H. Givens, certify that:

1. I have reviewed this report on Form 10-Q of River Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this period report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated history, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

RIVER FINANCIAL CORPORATION

May 9, 2018

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

Exhibit 32

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

CERTIFICATES PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of River Financial Corporation, an Alabama corporation (the "Company"), on Form 10-Q for the period ending March 31, 2018 as filed with the Securities and Exchange Commission (the "Report"), each of James M. Stubbs, Chief Executive Officer of the Company and Kenneth H. Givens, Chief Financial Officer of the Company, do hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

RIVER FINANCIAL CORPORATION

/s/ James M. Stubbs
James M. Stubbs
Chief Executive Officer
(principal executive officer)
Date: May 9, 2018

RIVER FINANCIAL CORPORATION

/s/ Kenneth H. Givens
Kenneth H. Givens
Chief Financial Officer
(principal financial officer and accounting officer)
Date: May 9, 2018

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