

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 333-205986

**RIVER FINANCIAL CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

**ALABAMA**

(State or other jurisdiction of  
incorporation or organization)

**46-1422125**

(I.R.S. Employer  
Identification No.)

**2611 Legends Drive**

**Prattville, Alabama**

(Address of principal executive offices)

**36066**

(Zip Code)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

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. Yes  No

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

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As of November 1, 2019, the registrant had 6,481,435 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 report are based on various factors and were derived using numerous assumptions. In some cases, you can identify these forward-looking statements by words like “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “intend”, “believe”, “estimate”, “predict”, “potential”, or “continue” or the negative of those words and other comparable words. You should be aware that those statements reflect only our predictions. If known or unknown risks or uncertainties should materialize, or if any one or more of our material underlying assumptions should prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind when reading this report and not place undue reliance on these forward-looking statements. Factors that might cause such differences include, but are not limited to:

- 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 our products and services;
- Customer borrowing, repayment, investment and deposit practices;
- The negative impact on profitability imposed on us by a compressed net interest margin on loans and other extensions of credit that affects our ability to lend profitably and to price loans effectively in the face of competitive pressures;
- Our liquidity requirements could be adversely affected by changes in our assets and liabilities;
- Our ability to attract, develop and retain qualified banking professionals;
- Failure to attract or retain stable deposits at reasonable cost that is competitive with the larger international, national, and regional financial service providers with which we compete;
- Significant reliance on loans secured by real estate and the associated vulnerability to downturns in the local real estate market, natural disasters and other variables impacting the value of real estate;
- The introduction, withdrawal, success and timing of business initiatives;
- The impact, extent, and timing of technological changes;
- A weakening of the economies in which we conduct operations may adversely affect our operating results;
- The U.S. legal and regulatory framework, or changes in such framework, could adversely affect our operating results;
- The interest rate environment may compress margins and adversely affect net interest income; and
- Competition from other financial services companies in our markets could adversely affect operations.

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

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

**PART I – FINANCIAL INFORMATION**

**Item 1. Consolidated Financial Statements (Unaudited)**

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

	September 30, 2019 Unaudited	December 31, 2018 Audited
<b><u>Assets</u></b>		
Cash and due from banks	\$ 19,018	\$ 13,834
Interest-bearing deposits in banks	16,789	32,253
Federal funds sold	13,135	1,420
Cash and cash equivalents	48,942	47,507
Certificates of deposit in banks	4,836	6,166
Securities available-for-sale, at fair value	236,143	228,630
Loans held for sale	10,202	2,619
Loans, net of unearned income	754,886	711,262
Less allowance for loan losses	(7,588)	(6,577)
Net loans	747,298	704,685
Premises and equipment, net	28,649	26,827
Accrued interest receivable	3,160	3,260
Bank owned life insurance	28,014	20,563
Foreclosed assets	1,117	496
Deferred income taxes, net	79	1,181
Core deposit intangible	4,627	5,583
Goodwill	18,293	18,293
Other assets	8,468	4,654
Total assets	<u>\$ 1,139,828</u>	<u>\$ 1,070,464</u>
<b><u>Liabilities and Shareholders' Equity</u></b>		
Noninterest-bearing deposits	\$ 263,157	\$ 241,274
Interest-bearing deposits	710,460	657,433
Total deposits	973,617	898,707
Securities sold under agreements to repurchase	9,717	7,975
Federal Home Loan Bank advances	-	20,000
Note payable	24,585	26,963
Accrued interest payable and other liabilities	8,717	5,343
Total liabilities	1,016,636	958,988
Common stock related to 401(k) Employee Stock Ownership Plan	1,599	1,343
<b><u>Stockholders' Equity</u></b>		
Common stock (\$1 par value; 10,000,000 shares authorized; 5,708,278 and 5,692,123 shares issued; 5,700,652 and 5,687,914 shares outstanding, respectively)	5,708	5,692
Additional paid-in capital	79,819	79,604
Retained earnings	35,871	29,460
Accumulated other comprehensive gain (loss)	2,011	(3,167)
Treasury stock at cost (7,626 and 4,209 shares, respectively)	(217)	(113)
Common stock related to 401(k) Employee Stock Ownership Plan	(1,599)	(1,343)
Total stockholders' equity	121,593	110,133
Total equity	123,192	111,476
Total liabilities and stockholders' equity	<u>\$ 1,139,828</u>	<u>\$ 1,070,464</u>

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

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

	For the Three Months Ended:		For the Nine Months Ended:	
	September 30,		September 30,	
	2019	2018	2019	2018
<b>Interest income:</b>				
Loans, including fees	\$ 10,192	\$ 8,269	\$ 29,853	\$ 23,551
Taxable securities	1,104	551	3,347	1,729
Nontaxable securities	356	180	1,055	547
Federal funds sold	107	-	183	-
Other interest income	178	74	485	162
Total interest income	<u>11,937</u>	<u>9,074</u>	<u>34,923</u>	<u>25,989</u>
<b>Interest expense:</b>				
Deposits	1,758	931	4,921	2,330
Short-term borrowings	11	9	35	31
Federal Home Loan Bank advances	-	162	29	329
Note payable	384	62	1,175	184
Total interest expense	<u>2,153</u>	<u>1,164</u>	<u>6,160</u>	<u>2,874</u>
<b>Net interest income</b>	<u>9,784</u>	<u>7,910</u>	<u>28,763</u>	<u>23,115</u>
<b>Provision for loan losses</b>	<u>540</u>	<u>480</u>	<u>1,620</u>	<u>1,440</u>
<b>Net interest income after provision for loan losses</b>	<u>9,244</u>	<u>7,430</u>	<u>27,143</u>	<u>21,675</u>
<b>Noninterest income:</b>				
Service charges and fees	1,251	830	3,537	2,436
Investment brokerage revenue	24	44	69	102
Mortgage operations	1,255	700	2,344	1,807
Bank owned life insurance income	171	145	451	428
Net gain (loss) on sale of investment securities	(6)	(56)	(9)	(53)
Other noninterest income	153	80	363	265
Total noninterest income	<u>2,848</u>	<u>1,743</u>	<u>6,755</u>	<u>4,985</u>
<b>Noninterest expense:</b>				
Salaries and employee benefits	4,680	3,349	13,010	10,266
Occupancy expenses	513	366	1,487	1,099
Equipment rentals, depreciation, and maintenance	248	206	784	677
Telephone and communications	99	69	268	190
Advertising and business development	149	154	478	501
Data processing	939	480	2,346	1,326
Foreclosed assets, net	21	45	144	135
Federal deposit insurance and other regulatory assessments	16	81	210	241
Legal and other professional services	263	285	692	568
Other operating expenses	1,331	915	3,826	2,612
Total noninterest expense	<u>8,259</u>	<u>5,950</u>	<u>23,245</u>	<u>17,615</u>
Income before income taxes	<u>3,833</u>	<u>3,223</u>	<u>10,653</u>	<u>9,045</u>
Provision for income taxes	861	741	2,312	2,039
<b>Net income</b>	<u>\$ 2,972</u>	<u>\$ 2,482</u>	<u>\$ 8,341</u>	<u>\$ 7,006</u>
Basic net earnings per common share	\$ 0.52	\$ 0.48	\$ 1.46	\$ 1.37
Diluted net earnings per common share	\$ 0.51	\$ 0.48	\$ 1.44	\$ 1.34
Dividends per common share	\$ -	\$ -	\$ 0.33	\$ 0.28

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		For the Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Net income	\$ 2,972	\$ 2,482	\$ 8,341	\$ 7,006
Other comprehensive income (loss), net of tax:				
Investment securities available-for-sale:				
Net unrealized gains (losses)	855	(1,092)	6,903	(3,764)
Income tax effect	(215)	275	(1,732)	945
Reclassification adjustments for net losses realized in net income	6	56	9	53
Income tax effect	(2)	(14)	(2)	(13)
Other comprehensive income (loss), net of tax	644	(775)	5,178	(2,779)
Comprehensive income	<u>\$ 3,616</u>	<u>\$ 1,707</u>	<u>\$ 13,519</u>	<u>\$ 4,227</u>

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

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

	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Treasury Stock	Common Stock Related to KSOP	Total Stockholders' Equity
Balance at December 31, 2018	\$ 5,692	\$ 79,604	\$ 29,460	\$ (3,167)	\$ (113)	\$ (1,343)	\$ 110,133
Net income	-	-	8,341	-	-	-	8,341
Other comprehensive income, net of tax	-	-	-	5,178	-	-	5,178
Exercise of stock options and warrants (16,155 shares)	16	126	-	-	-	-	142
Purchase of treasury stock (14,956 shares)	-	-	-	-	(423)	-	(423)
Sale of treasury shares (11,539 shares)	-	(42)	-	-	319	-	277
Dividends declared (\$0.33 per share)	-	-	(1,882)	-	-	-	(1,882)
Adoption of lease standard	-	-	(48)	-	-	-	(48)
Stock-based compensation expense	-	131	-	-	-	-	131
Change for KSOP related shares	-	-	-	-	-	(256)	(256)
Balance at September 30, 2019	<u>\$ 5,708</u>	<u>\$ 79,819</u>	<u>\$ 35,871</u>	<u>\$ 2,011</u>	<u>\$ (217)</u>	<u>\$ (1,599)</u>	<u>\$ 121,593</u>

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



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

	For the Nine Months Ended September 30,	
	2019	2018
<b>Cash Flows From (Used For) Operating Activities:</b>		
Net Income	\$ 8,341	\$ 7,006
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	1,620	1,440
Provision for losses on foreclosed assets	104	90
Amortization of securities available-for-sale	1,173	1,293
Accretion of securities available-for-sale	(360)	(25)
Realized net loss on securities available-for-sale	9	53
Accretion of discount on acquired loans	(681)	(1,015)
Amortization of deferred loan fees	(1,143)	(929)
Amortization of core deposit intangible asset	956	364
Stock-based compensation expense	131	41
Bank owned life insurance income	(451)	(428)
Depreciation and amortization of premises and equipment	1,004	742
Loss on sale of foreclosed assets	12	11
Deferred income tax benefit	(635)	(653)
(Increase) decrease in operating assets and (decrease) increase in operating liabilities:		
Loans held-for-sale	(7,583)	(1,119)
Accrued interest receivable	100	62
Other assets	(4,442)	(98)
Accrued interest payable and other liabilities	3,325	1,041
Net cash from operating activities	<u>1,480</u>	<u>7,876</u>
<b>Cash Flows From (Used For) Investing Activities:</b>		
Sales of certificate of deposit	-	1,452
Maturity of certificate of deposit	1,348	1,245
Purchase of certificate of deposit	-	(249)
Sales of securities available-for-sale	28,875	47,339
Maturities, payments, calls of securities available-for-sale	34,420	20,216
Purchases of securities available-for-sale	(64,732)	(27,903)
Loan principal originations, net	(43,264)	(92,876)
Proceeds from sale of foreclosed assets	118	1,040
Purchases of premises and equipment	(2,826)	(609)
Sale (purchase) of restricted equity securities, net	628	(862)
Purchase of bank owned life insurance	(7,000)	-
Net cash used for investing activities	<u>(52,433)</u>	<u>(51,207)</u>
<b>Cash Flows From (Used For) Financing Activities:</b>		
Net increase in deposits	74,910	26,585
Net increase (decrease) in securities sold under agreements to repurchase	1,742	(2,588)
Proceeds from Federal Home Loan Bank advances	-	80,000
Repayment of Federal Home Loan Bank advances	(20,000)	(60,000)
Repayment of note payable	(2,378)	(803)
Federal funds purchased	-	801
Proceeds from exercise of common stock options and warrants	142	291
Purchase of treasury stock	(423)	(127)
Sale of treasury stock	277	225
Cash dividends	(1,882)	(1,433)
Net cash from financing activities	<u>52,388</u>	<u>42,951</u>
<b>Net Change In Cash And Cash Equivalents</b>	<u>1,435</u>	<u>(380)</u>
<b>Cash and Cash Equivalents At Beginning Of Period</b>	<u>47,507</u>	<u>15,558</u>
<b>Cash and Cash Equivalents At End Of Period</b>	<u>\$ 48,942</u>	<u>\$ 15,178</u>
<b>Supplemental Disclosures Of Cash Flows Information:</b>		
Cash Payments For:		
Interest paid to depositors	\$ 4,861	\$ 2,303
Interest paid on borrowings	\$ 1,273	\$ 524
Income taxes	\$ 2,055	\$ 1,651
<b>Non-cash investing and financing activities:</b>		
Transfer of loans to foreclosed assets	\$ 855	\$ 318
Initial recognition of operating lease right-of-use assets	\$ 2,172	\$ -
Initial recognition of operating lease liabilities	\$ 2,237	\$ -

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

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

**Note 1 – Basis of Presentation**

**General**

The unaudited consolidated financial statements include the accounts of River Financial Corporation (“River” or the “Company”) and its wholly owned subsidiary, River Bank & Trust (“Bank”). The Bank provides a full range of commercial and consumer banking services primarily in the Montgomery, Alabama metropolitan area, Autauga, Chilton, 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 in accordance with the rules and regulations of the Securities and Exchange Commission and, therefore, certain information and note disclosures normally presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been omitted or abbreviated. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes as of December 31, 2018, which are contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018

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 September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Net earnings available to common shareholders	\$ 2,972	\$ 2,482	\$ 8,341	\$ 7,006
Weighted average common shares outstanding	5,703,921	5,131,134	5,702,026	5,122,397
Dilutive effect of stock options	93,780	87,640	91,549	88,709
Diluted common shares	5,797,701	5,218,774	5,793,575	5,211,106
Basic earnings per common share	\$ 0.52	\$ 0.48	\$ 1.46	\$ 1.37
Diluted earnings per common share	\$ 0.51	\$ 0.48	\$ 1.44	\$ 1.34

## Note 3 – Investment Securities

Securities available-for-sale at September 30, 2019 and December 31, 2018 are as follows (amounts in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2019:				
Securities available-for-sale:				
Residential mortgage-backed	\$ 121,101	\$ 614	\$ (824)	\$ 120,891
U.S. govt. sponsored enterprises	50,886	1,016	(45)	51,857
State, county, and municipal	58,298	1,943	(26)	60,215
Corporate debt obligations	3,151	29	-	3,180
Totals	<u>\$ 233,436</u>	<u>\$ 3,602</u>	<u>\$ (895)</u>	<u>\$ 236,143</u>
December 31, 2018:				
Securities available-for-sale:				
Residential mortgage-backed	\$ 108,915	\$ 45	\$ (4,027)	\$ 104,933
U.S. govt. sponsored enterprises	63,833	367	(278)	63,922
State, county, and municipal	57,417	219	(476)	57,160
Corporate debt obligations	2,670	7	(62)	2,615
Totals	<u>\$ 232,835</u>	<u>\$ 638</u>	<u>\$ (4,843)</u>	<u>\$ 228,630</u>

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

Details concerning investment securities with unrealized losses as of September 30, 2019 and December 31, 2018 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
<b>September 30, 2019:</b>						
Securities available-for-sale:						
Residential mortgage-backed	\$ 21,603	\$ 139	\$ 46,466	\$ 685	\$ 68,069	\$ 824
U.S. govt. sponsored enterprises	4,447	7	2,964	38	7,411	45
State, county & municipal	4,184	26	200	-	4,384	26
Corporate debt obligations	-	-	-	-	-	-
Totals	<u>\$ 30,234</u>	<u>\$ 172</u>	<u>\$ 49,630</u>	<u>\$ 723</u>	<u>\$ 79,864</u>	<u>\$ 895</u>
<b>December 31, 2018:</b>						
Securities available-for-sale:						
Residential mortgage-backed	\$ 6,003	\$ 27	\$ 88,502	\$ 4,000	\$ 94,505	\$ 4,027
U.S. govt. sponsored enterprises	9,786	13	8,116	265	17,902	278
State, county & municipal	19,043	149	13,880	327	32,923	476
Corporate debt obligations	516	3	332	59	848	62
Totals	<u>\$ 35,348</u>	<u>\$ 192</u>	<u>\$ 110,830</u>	<u>\$ 4,651</u>	<u>\$ 146,178</u>	<u>\$ 4,843</u>

As of September 30, 2019, 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 nine months ended September 30, 2019 or 2018. The Company owned a total of 44 securities with unrealized losses of \$895 thousand at September 30, 2019. As of September 30, 2019 and December 31, 2018, securities with a carrying value of approximately \$68.6 million and \$61.5 million, respectively, were pledged to secure public deposits as required by law. At September 30, 2019 and December 31, 2018, the carrying value of securities pledged to secure repurchase agreements was approximately \$15.1 million and \$16.5 million, respectively.

During the nine months ended September 30, 2019, the Company sold investment securities for proceeds of \$28.9 million and realized losses of \$9 thousand. During the nine months ended September 30, 2018, the Company sold investment securities for proceeds of \$47.3 million and realized losses of \$53 thousand.

The amortized cost and estimated fair value of securities available-for-sale at September 30, 2019 and December 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.

	September 30, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)		(In Thousands)	
<b>Securities available-for-sale</b>				
Less than 1 year	\$ 11,999	\$ 12,031	\$ 17,094	\$ 17,092
1 to 5 years	45,063	46,091	55,924	56,000
5 to 10 years	20,136	20,692	23,597	23,733
After 10 years	35,137	36,438	27,305	26,872
	112,335	115,252	123,920	123,697
Residential mortgage-backed securities	121,101	120,891	108,915	104,933
Totals	<u>\$ 233,436</u>	<u>\$ 236,143</u>	<u>\$ 232,835</u>	<u>\$ 228,630</u>

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

Major classifications of loans at September 30, 2019 and December 31, 2018 are summarized as follows (amounts in thousands):

	September 30, 2019		December 31, 2018	
	Amount	% of Total	Amount	% of Total
<b>Residential real estate:</b>				
Closed-end 1-4 family - first lien	\$ 173,771	23.3%	\$ 162,249	23.0%
Closed-end 1-4 family - junior lien	6,231	0.8%	5,739	0.8%
Multi-family	16,140	2.2%	16,938	2.4%
Total residential real estate	196,142	26.3%	184,926	26.2%
<b>Commercial real estate:</b>				
Nonfarm nonresidential	244,728	32.7%	209,391	29.7%
Farmland	11,475	1.5%	10,417	1.5%
Total commercial real estate	256,203	34.2%	219,808	31.2%
<b>Construction and land development:</b>				
Residential	45,990	6.2%	39,680	5.6%
Other	50,545	6.8%	62,430	8.9%
Total construction and land development	96,535	13.0%	102,110	14.5%
Home equity lines of credit	43,519	5.8%	39,040	5.5%
<b>Commercial loans:</b>				
Other commercial loans	104,304	14.0%	112,927	16.0%
Agricultural	1,506	0.2%	1,743	0.2%
State, county, and municipal loans	21,527	2.9%	19,756	2.9%
Total commercial loans	127,337	17.1%	134,426	19.1%
<b>Consumer loans</b>				
Total gross loans	757,153	101.4%	714,177	101.3%
Allowance for loan losses	(7,588)	-1.0%	(6,577)	-0.9%
Net deferred loan fees and discounts	(2,267)	-0.3%	(2,915)	-0.4%
Net loans	<u>\$ 747,298</u>	<u>100.1%</u>	<u>\$ 704,685</u>	<u>100.0%</u>

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

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 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				Commercial	Consumer	Total
	Residential	Commercial	Construction and Land Development	Home Equity Lines Of Credit			
<b>Allowance for Loan Losses</b>							
Balance - December 31, 2018	\$ 1,579	\$ 1,961	\$ 942	\$ 394	\$ 1,375	\$ 326	\$ 6,577
Provision(credit) for loan losses	252	886	(28)	8	327	175	1,620
Loan charge-offs	(587)	-	-	-	(175)	(157)	(919)
Loan recoveries	7	107	15	50	98	33	310
Balance - September 30, 2019	<u>\$ 1,251</u>	<u>\$ 2,954</u>	<u>\$ 929</u>	<u>\$ 452</u>	<u>\$ 1,625</u>	<u>\$ 377</u>	<u>\$ 7,588</u>
<b>Ending balance:</b>							
Individually evaluated for impairment	\$ 16	\$ 59	\$ -	\$ -	\$ 303	\$ -	\$ 378
Collectively evaluated for impairment	1,235	2,895	929	452	1,322	377	7,210
Total	<u>\$ 1,251</u>	<u>\$ 2,954</u>	<u>\$ 929</u>	<u>\$ 452</u>	<u>\$ 1,625</u>	<u>\$ 377</u>	<u>\$ 7,588</u>
<b>Loans:</b>							
Individually evaluated for impairment	\$ 811	\$ 2,324	\$ 149	\$ 318	\$ 414	\$ 27	\$ 4,043
Collectively evaluated for impairment	195,038	253,831	96,328	43,201	126,866	37,356	752,620
Acquired loans with deteriorated credit quality	293	48	58	-	57	34	490
Total	<u>\$ 196,142</u>	<u>\$ 256,203</u>	<u>\$ 96,535</u>	<u>\$ 43,519</u>	<u>\$ 127,337</u>	<u>\$ 37,417</u>	<u>\$ 757,153</u>

	Real Estate Mortgage Loans				Commercial	Consumer	Total
	Residential	Commercial	Construction and Land Development	Home Equity Lines Of Credit			
<b>Allowance for Loan Losses</b>							
Balance - December 31, 2017	\$ 1,167	\$ 1,604	\$ 606	\$ 333	\$ 954	\$ 217	\$ 4,881
Provision for loan losses	289	357	281	36	384	93	1,440
Loan charge-offs	(41)	(109)	-	(20)	(232)	(46)	(448)
Loan recoveries	14	6	34	12	111	13	190
Balance - September 30, 2018	<u>\$ 1,429</u>	<u>\$ 1,858</u>	<u>\$ 921</u>	<u>\$ 361</u>	<u>\$ 1,217</u>	<u>\$ 277</u>	<u>\$ 6,063</u>
<b>Ending balance:</b>							
Individually evaluated for impairment	\$ 507	\$ 63	\$ 10	\$ -	\$ 144	\$ 15	\$ 739
Collectively evaluated for impairment	922	1,795	911	361	1,073	262	5,324
Total	<u>\$ 1,429</u>	<u>\$ 1,858</u>	<u>\$ 921</u>	<u>\$ 361</u>	<u>\$ 1,217</u>	<u>\$ 277</u>	<u>\$ 6,063</u>
<b>Loans:</b>							
Individually evaluated for impairment	\$ 1,775	\$ 1,908	\$ 160	\$ 100	\$ 265	\$ 60	\$ 4,268
Collectively evaluated for impairment	156,946	195,762	97,748	37,554	124,091	27,463	639,564
Total	<u>\$158,721</u>	<u>\$197,670</u>	<u>\$ 97,908</u>	<u>\$ 37,654</u>	<u>\$124,356</u>	<u>\$ 27,523</u>	<u>\$643,832</u>

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

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 September 30, 2019 (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.

	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
<b>Nonaccruing Impaired Loans</b>					
Mortgage loans on real estate:					
Residential real estate	\$ 330	\$ 330	\$ 218	\$ 112	\$ 16
Commercial real estate	-	-	-	-	-
Construction and land development	-	-	-	-	-
Total mortgage loans on real estate	330	330	218	112	16
Home equity lines of credit	218	218	218	-	-
Commercial loans	136	136	-	136	136
Consumer loans	27	27	27	-	-
Total Loans	<u>\$ 711</u>	<u>\$ 711</u>	<u>\$ 463</u>	<u>\$ 248</u>	<u>\$ 152</u>

	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
<b>Accruing Impaired Loans</b>					
Mortgage loans on real estate:					
Residential real estate	\$ 481	\$ 481	\$ 481	\$ -	\$ -
Commercial real estate	2,324	2,324	1,528	796	59
Construction and land development	213	149	149	-	-
Total mortgage loans on real estate	3,018	2,954	2,158	796	59
Home equity lines of credit	100	100	100	-	-
Commercial loans	278	278	111	167	167
Consumer loans	-	-	-	-	-
Total Loans	<u>\$ 3,396</u>	<u>\$ 3,332</u>	<u>\$ 2,369</u>	<u>\$ 963</u>	<u>\$ 226</u>

	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
<b>Total Impaired Loans</b>					
Mortgage loans on real estate:					
Residential real estate	\$ 811	\$ 811	\$ 699	\$ 112	\$ 16
Commercial real estate	2,324	2,324	1,528	796	59
Construction and land development	213	149	149	-	-
Total mortgage loans on real estate	3,348	3,284	2,376	908	75
Home equity lines of credit	318	318	318	-	-
Commercial loans	414	414	111	303	303
Consumer loans	27	27	27	-	-
Total Loans	<u>\$ 4,107</u>	<u>\$ 4,043</u>	<u>\$ 2,832</u>	<u>\$ 1,211</u>	<u>\$ 378</u>



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

	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
<b>Nonaccruing Impaired Loans</b>					
Mortgage loans on real estate:					
Residential real estate	\$ 1,519	\$ 1,519	\$ 118	\$ 1,401	\$ 505
Commercial real estate	423	142	142	-	-
Construction and land development	-	-	-	-	-
Total mortgage loans on real estate	1,942	1,661	260	1,401	505
Home equity lines of credit	-	-	-	-	-
Commercial loans	143	143	-	143	143
Consumer loans	-	-	-	-	-
Total Loans	<u>\$ 2,085</u>	<u>\$ 1,804</u>	<u>\$ 260</u>	<u>\$ 1,544</u>	<u>\$ 648</u>

	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
<b>Accruing Impaired Loans</b>					
Mortgage loans on real estate:					
Residential real estate	\$ 489	\$ 489	\$ 370	\$ 119	\$ 2
Commercial real estate	1,783	1,783	965	818	54
Construction and land development	221	158	-	158	8
Total mortgage loans on real estate	2,493	2,430	1,335	1,095	64
Home equity lines of credit	100	100	100	-	-
Commercial loans	119	119	119	-	-
Consumer loans	54	54	29	25	13
Total Loans	<u>\$ 2,766</u>	<u>\$ 2,703</u>	<u>\$ 1,583</u>	<u>\$ 1,120</u>	<u>\$ 77</u>

	Unpaid Principal Balance	Recorded Investment	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
<b>Total Impaired Loans</b>					
Mortgage loans on real estate:					
Residential real estate	\$ 2,008	\$ 2,008	\$ 488	\$ 1,520	\$ 507
Commercial real estate	2,206	1,925	1,107	818	54
Construction and land development	221	158	-	158	8
Total mortgage loans on real estate	4,435	4,091	1,595	2,496	569
Home equity lines of credit	100	100	100	-	-
Commercial loans	262	262	119	143	143
Consumer loans	54	54	29	25	13
Total Loans	<u>\$ 4,851</u>	<u>\$ 4,507</u>	<u>\$ 1,843</u>	<u>\$ 2,664</u>	<u>\$ 725</u>

The following table presents the average recorded investment in impaired loans and the interest income recognized on impaired loans in the nine months ended September 30, 2019 and 2018 by loan category (amounts in thousands).

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018		
	Average Recorded Investment	Ending Recorded Investment	Interest Income	Average Recorded Investment	Ending Recorded Investment	Interest Income
<b>Mortgage loans on real estate:</b>						
Residential real estate	\$ 1,501	\$ 811	\$ 19	\$ 2,139	\$ 1,775	\$ 42
Commercial real estate	2,262	2,324	90	2,166	1,908	69
Construction and land development	153	149	6	164	160	6
Total mortgage loans on real estate	3,916	3,284	115	4,469	3,843	117
Home equity lines of credit	266	318	5	100	100	5
Commercial loans	381	414	15	283	265	7
Consumer loans	69	27	3	90	60	2
Total Loans	<u>\$ 4,632</u>	<u>\$ 4,043</u>	<u>\$ 138</u>	<u>\$ 4,942</u>	<u>\$ 4,268</u>	<u>\$ 131</u>

The following tables present the aging of loans and non-accrual loans as of September 30, 2019 and December 31, 2018, by class of loans (amounts in thousands).

<b>As of September 30, 2019</b>	Accruing Loans			Nonaccrual Loans	Total Loans
	Current	30-89 Days Past Due	90+ Days Past Due		
<b>Mortgage loans on real estate:</b>					
Residential real estate	\$ 193,686	\$ 1,337	\$ 82	\$ 1,037	\$ 196,142
Commercial real estate	256,198	-	-	5	256,203
Construction and land development	96,079	377	-	79	96,535
Total mortgage loans on real estate	545,963	1,714	82	1,121	548,880
Home equity lines of credit	43,056	129	-	334	43,519
Commercial loans	126,692	393	-	252	127,337
Consumer loans	37,044	186	-	187	37,417
Total Loans	<u>\$ 752,755</u>	<u>\$ 2,422</u>	<u>\$ 82</u>	<u>\$ 1,894</u>	<u>\$ 757,153</u>

<b>As of December 31, 2018</b>	Accruing Loans			Nonaccrual Loans	Total Loans
	Current	30-89 Days Past Due	90+ Days Past Due		
<b>Mortgage loans on real estate:</b>					
Residential real estate	\$ 181,252	\$ 1,528	\$ 19	\$ 2,127	\$ 184,926
Commercial real estate	219,578	68	-	162	219,808
Construction and land development	101,993	23	-	94	102,110
Total mortgage loans on real estate	502,823	1,619	19	2,383	506,844
Home equity lines of credit	38,891	24	-	125	39,040
Commercial loans	134,066	217	-	143	134,426
Consumer loans	33,544	234	-	89	33,867
Total Loans	<u>\$ 709,324</u>	<u>\$ 2,094</u>	<u>\$ 19</u>	<u>\$ 2,740</u>	<u>\$ 714,177</u>

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass rated loans. As of September 30, 2019 and December 31, 2018, 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):

<b>As of September 30, 2019</b>	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential real estate	\$ 191,663	\$ 2,509	\$ 1,970	\$ -	\$ 196,142
Commercial real estate	249,378	3,773	3,052	-	256,203
Construction and land development	96,113	43	379	-	96,535
Total mortgage loans on real estate	537,154	6,325	5,401	-	548,880
Home equity lines of credit	43,028	57	434	-	43,519
Commercial loans	125,510	1,121	706	-	127,337
Consumer loans	36,626	471	320	-	37,417
Total Loans	<u>\$ 742,318</u>	<u>\$ 7,974</u>	<u>\$ 6,861</u>	<u>\$ -</u>	<u>\$ 757,153</u>

<b>As of December 31, 2018</b>	Pass	Special Mention	Substandard	Doubtful	Total
Mortgage loans on real estate:					
Residential real estate	\$ 179,132	\$ 2,435	\$ 3,270	\$ 89	\$ 184,926
Commercial real estate	212,421	4,609	2,778	-	219,808
Construction and land development	101,612	49	449	-	102,110
Total mortgage loans on real estate	493,165	7,093	6,497	89	506,844
Home equity lines of credit	38,530	285	225	-	39,040
Commercial loans	131,449	2,612	343	22	134,426
Consumer loans	33,269	330	268	-	33,867
Total Loans	<u>\$ 696,413</u>	<u>\$ 10,320</u>	<u>\$ 7,333</u>	<u>\$ 111</u>	<u>\$ 714,177</u>

#### 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 September 30, 2019 and December 31, 2018, 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 fixed 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 September 30, 2019 and December 31, 2018 is as follows: (amounts in thousands)

	Fair Value Measurements At Reporting Date Using:			
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>September 30, 2019</b>				
Securities available-for-sale:				
Residential mortgage -backed	\$ 120,891	\$ -	\$ 120,891	\$ -
U.S. government sponsored enterprises	51,857	-	51,857	-
State, county, and municipal	60,215	-	60,215	-
Corporate debt obligations	3,180	-	3,180	-
Totals	<u>\$ 236,143</u>	<u>\$ -</u>	<u>\$ 236,143</u>	<u>\$ -</u>

	Fair Value Measurements At Reporting Date Using:			
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2018</b>				
Securities available-for-sale:				
Residential mortgage -backed	\$ 104,933	\$ -	\$ 104,933	\$ -
U.S. government sponsored enterprises	63,922	-	63,922	-
State, county, and municipal	57,160	-	57,160	-
Corporate debt obligations	2,615	-	2,615	-
Totals	<u>\$ 228,630</u>	<u>\$ -</u>	<u>\$ 228,630</u>	<u>\$ -</u>

Assets measured at fair value on a nonrecurring basis – The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. 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 September 30, 2019 and December 31, 2018 (amounts in thousands):

	Fair Value Measurements At Reporting Date Using:			
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>September 30, 2019</b>				
Impaired loans	\$ 3,665	\$ -	\$ -	\$ 3,665
Foreclosed assets	1,117	-	-	1,117
Totals	<u>\$ 4,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,782</u>

<b>December 31, 2018</b>	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	\$ 3,782	\$ -	\$ -	\$ 3,782
Foreclosed assets	496	-	-	496
Totals	<u>\$ 4,278</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,278</u>

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

The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments as of September 30, 2019 and December 31, 2018 are as follows (amounts in thousands):

<b>September 30, 2019</b>	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 48,942	\$ 48,942	\$ -	\$ -
Certificates of deposit in banks	4,836	-	4,836	-
Securities available-for-sale	236,143	-	236,143	-
Loans held-for-sale	10,202	-	10,202	-
Restricted equity securities	1,324	-	-	1,324
Loans receivable	747,298	-	755,628	3,665
Bank owned life insurance	28,014	-	28,014	-
Accrued interest receivable	3,160	-	3,160	-
<b>Financial liabilities:</b>				
Deposits	973,617	-	950,266	-
Accrued interest payable	488	-	488	-
Securities sold under agreements to repurchase	9,717	-	9,717	-
Note payable	24,585	-	24,585	-

  

<b>December 31, 2018</b>	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 47,507	\$ 47,507	\$ -	\$ -
Certificates of deposit in banks	6,166	-	6,166	-
Securities available-for-sale	228,630	-	228,630	-
Loans held-for-sale	2,619	-	2,619	-
Restricted equity securities	1,941	-	-	1,941
Loans receivable	704,685	-	699,076	3,782
Bank owned life insurance	20,563	-	20,563	-
Accrued interest receivable	3,260	-	3,260	-
<b>Financial liabilities:</b>				
Deposits	898,707	-	861,683	-
Accrued interest payable	462	-	462	-
Securities sold under agreements to repurchase	7,975	-	7,975	-
Federal Home Loan Bank advances	20,000	-	19,999	-
Note payable	26,963	-	26,963	-

The estimated fair values of the standby letters of credit and loan commitments on which the committed interest rate is less than the current market rate are insignificant at September 30, 2019 and December 31, 2018.

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 February 2016, the FASB issued ASU No. 2016-02, "*Leases.*" Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases): 1) a lease liability, which is the present value of a lessee's obligation to make lease payments, and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities. ASU No. 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. As the Company elected the transition option provided in ASU No. 2018-11 (see below), the modified retrospective approach was applied on January 1, 2019 (as opposed to January 1, 2018). The Company also elected certain relief options offered in ASU 2016-02 including the package of practical expedients, the option not to separate lease and non-lease components and instead to account for them as a single lease component, and the option not to recognize right-of-use assets and lease liabilities that arise from short-term leases (i.e., leases with terms of twelve months or less). The Company did not elect the hindsight practical expedient, which allows entities to use hindsight when determining lease term and impairment of right-of-use assets. The Company has several lease agreements, such as branch locations, which are considered operating leases, and therefore, were not previously recognized on the Company's consolidated statements of condition. The new guidance requires these lease agreements to be recognized on the consolidated statements of condition as a right-of-use asset and a corresponding lease liability. The new guidance did not have a material impact on the consolidated statements of income or the consolidated statements of cash flows. See Note 9 *Leases* for more information.

In July 2018, the FASB issued ASU No. 2018-11, "*Leases - Targeted Improvements*" to provide entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU No. 2016-02. Specifically, under the amendments in ASU 2018-11: (1) entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard, and (2) lessors may elect not to separate lease and non-lease components when certain conditions are met. The amendments have the same effective date as ASU 2016-02 (January 1, 2019 for the Company). The Company adopted ASU 2018-11 on its required effective date of January 1, 2019 and elected both transition options mentioned above. ASU 2018-11 did not have a material impact on the Company's 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. On July 17, 2019, the FASB proposed a delay in the implementation date for this ASU for small SEC reporting companies, from the first quarter of 2020 to the first quarter of 2023. Management will monitor the progress of the proposed implementation date delay and will implement this ASU when the required implementation date is determined by the FASB. Our implementation efforts continued throughout 2018, assessing credit loss forecasting models and processes against the new guidance. In the first quarter of 2019 we began running the expected loss model along with our current model. While we continue to evaluate the impact the new guidance will have on our financial position and results of operations, we currently expect the new guidance may result in an increase to our allowance for credit losses given the change to estimated losses over the contractual life of the loan portfolio. The amount of any change to our allowance is still under review and will depend, in part, upon the composition of our loan portfolio at the adoption date as well as economic conditions and loss forecasts at that date.

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 and 2018 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 ASU did not have an impact on the Company's financial position or results of operations.

#### **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 \$19 thousand and \$18.5 thousand of the participant's annual compensation in 2019 and 2018, 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 \$318 thousand and \$261 thousand for the nine months ended September 30, 2019 and 2018, respectively. Outstanding shares of the Company's common stock allocated to participants at September 30, 2019 and December 31, 2018 totaled 79,332 and 68,889 shares respectively, and there were no unallocated shares. These shares are treated as outstanding for purposes of calculating earnings per share and dividends on these shares are included in the Consolidated Statements of Stockholders' Equity.



The Company's 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 separate vested participants and certain eligible participants who elect to diversify their account balances. Since the Company's common stock is not currently traded on an established securities market, if the owners of distributed shares desire to sell their shares, the Company is required to purchase the shares at fair value during two put option periods following the distribution of the shares from the 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 September 30, 2019 and December 31, 2018. The cost of the KSOP shares totaled \$1.60 million and \$1.34 million as of September 30, 2019 and December 31, 2018, respectively. 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 \$1.60 million and \$1.34 million as of September 30, 2019 and December 31, 2018, respectively. The fair value of the KSOP shares totaled \$2.04 million and \$1.65 million as of September 30, 2019 and December 31, 2018, respectively.

#### **Note 8 – Acquisitions**

On June 5, 2019, the Company announced the signing of a definitive agreement providing for the merger of Trinity Bancorp, Inc. with and into River Financial Corporation. Concurrent with the merger of River Financial Corporation and Trinity Bancorp, Inc., Trinity Bank will be merged with and into River Bank & Trust.

Under the terms of the definitive agreement, shareholders of Trinity Bancorp, Inc. immediately prior to the effective time of the merger will receive in exchange for each outstanding share of Trinity Bancorp, Inc. common stock held .44627 shares of River Financial Corporation common stock and approximately \$3.50 in cash. Based on the 1,741,053 shares of Trinity Bancorp, Inc. common stock issued and outstanding as of June 5, 2019, River Financial Corporation will issue 776,979 shares of River Financial Corporation common stock and make cash payments to Trinity Bancorp, Inc. shareholders of approximately \$6.1 million. The transaction is subject to customary closing conditions, including receipt of regulatory approvals and approval by Trinity Bancorp, Inc. shareholders. The merger is expected to close in the fourth quarter of 2019.

On October 31, 2018, the Company completed its merger with PSB Bancshares, Inc. ("PSB"), a bank holding company headquartered in Clanton, Alabama. At that time, PSB's wholly-owned banking subsidiary, Peoples Southern Bank was merged with and into RB&T. Peoples Southern Bank had a total of three banking locations located in Clanton, and Thorsby, Alabama. Upon consummation of the acquisition, PSB was merged with and into the Company, with the Company as the surviving entity in the merger. PSB's common shareholders received sixty (60) shares of the Company's common stock and \$6,610 in cash in exchange for each share of PSB's common stock. The Company paid cash totaling \$24.5 million and issued 222,360 shares of the Company's common stock. The aggregate estimated value of the consideration given was approximately \$30.5 million. The Company recorded \$8.2 million of goodwill, which is nondeductible for tax purposes, as this acquisition was a nontaxable transaction. Merger expenses of approximately \$1.84 million were charged directly to other noninterest expenses.

The acquisition of PSB was accounted for using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. Assets acquired, liabilities assumed and consideration exchanged were recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and are subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available.

#### **Note 9 – Leases**

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

##### *Lessee Accounting*

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches and office space with terms extending through 2028. Substantially all of our leases are classified as operating leases, and therefore, were previously not recognized on the Company's consolidated statements of condition. With the adoption of Topic 842, operating lease agreements are required to be recognized on the consolidated statements of condition as a right-of-use ("ROU") asset and a corresponding lease liability.

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

<b>Lease Right-of-Use Assets</b>	<b>Classification on Consolidated Statement of Condition</b>	<b>September 30, 2019</b>
Operating lease right-of-use assets	Other Assets	\$ 1,978

<b>Lease Liabilities</b>	<b>Classification on Consolidated Statement of Condition</b>	<b>September 30, 2019</b>
Operating lease liabilities	Accrued interest payable and other liabilities	\$ 2,051

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

	<b>September 30, 2019</b>
Weighted-average remaining lease term for operating leases	7.26 Years
Weighted-average discount rate for operating leases	6.00%

Future minimum payments for operating leases with initial or remaining terms of one year or more as of September 30, 2019 were as follows:

	<b>Operating Leases</b>
September 30, 2019 - September 30, 2020	\$ 388
October 1, 2020 - September 30, 2021	363
October 1, 2021 - September 30, 2022	355
October 1, 2022 - September 30, 2023	355
October 1, 2023 - September 30, 2024	298
Afterward	795
Total future minimum lease payments	2,554
Amounts representing Interest	(503)
Present value of net future minimum lease payments	<u>\$ 2,051</u>

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and related notes thereto for the year ended December 31, 2018, which are contained in the Annual Report on Form 10-K for the year ended December 31, 2018. 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 2018 Annual Report on Form 10-K under "Part I, Item 1A - Risk Factors." We assume no obligation to update any of these forward-looking statements.*

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

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

### **Our Business**

We are a bank holding company headquartered in Prattville, Alabama. We engage in the business of banking through our wholly-owned banking subsidiary, River Bank & Trust, which we may refer to as the "Bank," or "River Bank." Through the Bank, we provide a broad array of financial services to businesses, business owners, professionals, and consumers. As of September 30, 2019, we operated fourteen full-service banking offices in Alabama in the cities of Montgomery, Prattville, Millbrook, Wetumpka, Auburn, Opelika, Gadsden, Alexander City, Daphne, Clanton, and Thorsby, Alabama.

### **Segments**

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

### **Overview of Third Quarter 2019 Results**

Net income was \$2.97 million in the quarter ended September 30, 2019, compared with \$2.48 million in the quarter ended September 30, 2018. Several significant measures from the 2019 third quarter include:

- Net interest margin (taxable equivalent) of 3.81%, compared with 4.01% for the third quarter of 2018.
- Net interest income increase of \$1.9 million for the quarter ended September 30, 2019, representing a 23.69% rate of increase over the quarter ended September 30, 2018.
- Annualized return on average earning assets for the quarter ended September 30, 2019 of 1.15% compared with 1.25% for the quarter ended September 30, 2018.
- Annualized return on average equity for the quarter ended September 30, 2019 of 9.68% compared with 10.74% for the quarter ended September 30, 2018.
- Loan increase of \$6.0 million during the quarter, representing a 3.18% annualized growth rate.
- Securities available-for-sale increase of \$15.7 million during the quarter, representing a 28.40% annualized increase for the quarter.
- Deposit increase of \$16.2 million during the quarter, representing a 6.79% annualized growth rate.
- Stockholders' equity increase of \$3.5 million during the quarter representing a 11.93% annualized growth rate.
- Book value per share of \$21.61 at September 30, 2019, compared with \$19.60 per share at December 31, 2018.
- Tangible book value per share of \$17.59 at September 30, 2019, compared with \$15.41 at December 31, 2018.

## **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, 2018, 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, 2018, which are contained in our Annual Report on Form 10-K.

### *Investment Securities Impairment*

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

### *Income Taxes*

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

### *Business Combinations*

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

### **Comparison of the Results of Operations for the three and nine months ended September 30, 2019 and 2018**

The following is a narrative discussion and analysis of significant changes in our results of operations for the three and nine months ended September 30, 2019 compared to the three and nine months ended September 30, 2018.

#### **Net Income**

During the three months ended September 30, 2019, our net income was \$2.97 million, compared to \$2.48 million for the three months ended September 30, 2018, an increase of \$490 thousand, or 19.74%.

The primary reason for the increase in net income for the third quarter of 2019 as compared to the third quarter of 2018 was an increase in net interest income. During the three months ended September 30, 2019, net interest income was \$9.8 million compared to \$7.9 million for the three months ended September 30, 2018, an increase of \$1.9 million, or 23.69%. This increase is a result of higher levels of loan volume and other earning assets from organic growth as well as from growth through the Peoples Southern Bank (“PSB”) merger in 2018. The increase in interest income was accompanied by a corresponding increase in interest expense that resulted from an increase in deposit rates and from deposit growth both organically and through the PSB merger. Total noninterest income for the third quarter of 2019 was \$2.8 million compared to \$1.7 million for the quarter ended September 30, 2018. This increase in noninterest income was primarily the result of the \$421 thousand increase in service charges and fees which was mostly a result of additional income from the PSB merger. Total noninterest expense in the third quarter of 2019 increased \$2.3 million, or 38.81%, from the third quarter of 2018. This increase was due primarily due to the PSB merger. The most significant increases were an increase of \$1.3 million in salaries and employee benefits, an increase of \$459 thousand in data processing, and a \$191 thousand increase in amortization expense related to the core deposit intangible assets.

During the nine months ended September 30, 2019, our net income was \$8.3 million, compared to \$7.0 million for the nine months ended September 30, 2018, an increase of \$1.3 million, or 19.06%.

The primary reason for the increase in net income for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 was an increase in net interest income and an increase in noninterest income. During this period in 2019, net interest income was \$28.8 million compared to \$23.1 million for the same period in 2018, an increase of \$5.7 million, or 24.43%. This increase is a result of higher levels of loan volume and other earning assets from organic growth as well as growth through the PSB merger. The increase in interest income was accompanied by a corresponding increase in interest expense that resulted from an increase in deposit rates and from deposit growth both organically and through the PSB merger. Total noninterest income for the first nine months of 2019 was \$6.8 million compared to \$5.0 million in the first nine months of 2018. This increase was primarily the result of an increase of \$1.1 million in revenue from service charges and fees which was mostly a result of additional income from the PSB merger. Total noninterest expense in the first nine months of 2019 increased \$5.6 million, or 31.96%, from the first nine months of 2018. The most significant increases were an increase of \$2.7 million in salaries and employee benefits, an increase of \$1 million in data processing, and a \$593 thousand increase in amortization expense related to the core deposit intangible assets.

## Net Interest Income and Net Interest Margin Analysis

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

### Comparison of net interest income for the three months ended September 30, 2019 and 2018

The following table shows, for the three months ended September 30, 2019 and 2018, the average balances of each principal category of our earning assets and interest bearing liabilities and the average taxable equivalent yields on assets and average costs of liabilities. These yields and costs are calculated by dividing the income or expense by the average daily balance of the associated assets or liabilities (amounts in thousands).

	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
<b>Interest earning assets</b>						
Loans	\$ 745,977	\$ 10,144	5.39%	\$ 627,388	\$ 8,248	5.22%
Mortgage loans held for sale	11,232	97	3.42%	4,756	50	4.15%
Investment securities:						
Taxable securities	173,156	1,104	2.43%	113,620	551	1.92%
Tax-exempt securities	53,303	461	3.75%	31,163	233	2.98%
Interest bearing balances in other banks	32,198	178	2.19%	14,242	74	2.08%
Federal funds sold	18,150	107	2.34%	-	-	0.00%
Total interest earning assets	\$1,034,016	\$ 12,091	4.64%	\$ 791,169	\$ 9,156	4.59%
<b>Interest bearing liabilities</b>						
Interest bearing transaction accounts	\$ 242,128	\$ 251	0.41%	\$ 192,688	\$ 170	0.35%
Savings and money market accounts	286,788	733	1.01%	210,971	392	0.74%
Time deposits	175,949	774	1.75%	131,323	369	1.11%
Short-term debt	9,075	11	0.48%	9,421	9	0.41%
Federal Home Loan Bank advances	-	-		30,000	162	2.14%
Note payable	24,973	384	6.16%	4,819	62	5.08%
Total interest bearing liabilities	\$ 738,913	\$ 2,153	1.16%	\$ 579,222	\$ 1,164	0.80%
Noninterest-bearing funding of earning assets	295,103	-	0.00%	211,947	-	0.00%
Total cost of funding earning assets	\$1,034,016	\$ 2,153	0.83%	\$ 791,169	\$ 1,164	0.58%
Net interest rate spread			3.48%			3.79%
Net interest income/margin (taxable equivalent)		\$ 9,938	3.81%		\$ 7,992	4.01%
Tax equivalent adjustment		(154)			(82)	
Net interest income/margin		\$ 9,784	3.75%		\$ 7,910	3.97%

The following table reflects, for the three months ended September 30, 2019 and 2018, the changes in our net interest income due to variances in the volume of interest earning assets and interest bearing liabilities and variances in the associated rates earned or paid on these assets and liabilities (amounts in thousands).

	Three Months Ended September 30, 2019 vs. Three Months Ended September 30, 2018		
	Volume	Variance due to Yield/Rate	Total
<b><u>Interest earning assets</u></b>			
Loans	\$ 1,576	\$ 320	\$ 1,896
Mortgage loans held for sale	68	(21)	47
Investment securities:			
Taxable securities	330	223	553
Tax-exempt securities	126	102	228
Interest bearing balances in other banks	95	9	104
Federal funds sold	-	107	107
Total interest earning assets	\$ 2,195	\$ 740	\$ 2,935
<b><u>Interest bearing liabilities</u></b>			
Interest bearing transaction accounts	\$ 44	\$ 37	\$ 81
Savings and money market accounts	141	200	341
Time deposits	125	280	405
Short-term debt	-	2	2
Federal Home Loan Bank advances	(162)	-	(162)
Note payable	254	68	322
Total interest bearing liabilities	\$ 402	\$ 587	\$ 989
<b><u>Net interest income</u></b>			
Net interest income (taxable equivalent)	\$ 1,793	\$ 153	\$ 1,946
Taxable equivalent adjustment	(53)	(19)	(72)
Net interest income	<u>\$ 1,740</u>	<u>\$ 134</u>	<u>\$ 1,874</u>

Total interest income for the three months ended September 30, 2019 was \$11.9 million and total interest expense was \$2.2 million, resulting in net interest income of \$9.8 million for the period. For the same period of 2018, total interest income was \$9.1 million and total interest expense was \$1.2 million, resulting in net interest income of \$7.9 million for the period. This represents a 23.69% increase in net interest income when comparing the same period from 2019 and 2018. When comparing the variances related to interest income for the three months ended September 30, 2019 and 2018, the increase was primarily attributed to increases in average volumes in loans and investment securities. The volume related increase in interest income for the three months ended September 30, 2019 was also accompanied by an increase in the yield on loans and investment securities. When comparing variances related to interest expense for the three months ended September 30, 2019 and 2018, the increase resulted primarily from an increase in the effective rates paid on deposit accounts as well as from the increased interest expense on the note payable related to the PSB merger.

*Comparison of net interest income for the nine months ended September 30, 2019 and 2018*

The following table shows, for the nine months ended September 30, 2019 and 2018, the average balances of each principal category of our earning assets and interest bearing liabilities and the average taxable equivalent yields on assets and average costs of liabilities. These yields and costs are calculated by dividing the income or expense by the average daily balance of the associated assets or liabilities.

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
<b>Interest earning assets</b>						
Loans	\$ 734,975	\$ 29,846	5.43%	\$ 596,132	\$ 23,497	5.27%
Mortgage loans held for sale	5,653	149	3.52%	4,626	130	3.76%
Investment securities:						
Taxable securities	172,578	3,347	2.59%	118,281	1,729	1.95%
Tax-exempt securities	53,900	1,348	3.34%	34,819	699	2.68%
Interest bearing balances in other banks	29,189	485	2.22%	11,312	162	1.91%
Federal funds sold	9,911	183	2.47%	-	-	0.00%
Total interest earning assets	\$1,006,206	\$ 35,358	4.71%	\$ 765,170	\$ 26,217	4.59%
<b>Interest bearing liabilities</b>						
Interest bearing transaction accounts	\$ 245,195	\$ 826	0.45%	\$ 191,318	\$ 449	0.31%
Savings and money market accounts	275,141	2,094	1.02%	197,942	864	0.58%
Time deposits	167,740	2,001	1.59%	133,718	1,017	1.02%
Securities sold under repurchase agreements	8,950	35	0.52%	10,745	31	0.39%
Federal Home Loan Bank advances	1,538	29	2.52%	22,564	329	1.95%
Note payable	25,768	1,175	6.10%	5,084	184	4.84%
Total interest bearing liabilities	\$ 724,332	\$ 6,160	1.14%	\$ 561,371	\$ 2,874	0.68%
Noninterest-bearing funding of earning assets	281,874	-	0.00%	203,799	-	0.00%
Total cost of funding earning assets	\$1,006,206	\$ 6,160	0.82%	\$ 765,170	\$ 2,874	0.50%
Net interest rate spread			3.57%			3.91%
Net interest income/margin (taxable equivalent)		\$ 29,198	3.88%		\$ 23,343	4.09%
Tax equivalent adjustment		(435)			(228)	
Net interest income/margin		\$ 28,763	3.82%		\$ 23,115	4.04%



The following table reflects, for the nine months ended September 30, 2019 and 2018, the changes in our net interest income due to variances in the volume of interest earning assets and interest bearing liabilities and variances in the associated rates earned or paid on these assets and liabilities.

	Nine Months Ended September 30, 2019 vs. Nine Months Ended September 30, 2018		
	Volume	Variance due to Yield/Rate	Total
<b><u>Interest earning assets</u></b>			
Loans	\$ 5,469	\$ 880	\$ 6,349
Mortgage loans held for sale	29	(10)	19
<b>Investment securities:</b>			
Taxable securities	921	697	1,618
Tax-exempt securities	379	270	649
Interest bearing balances in other banks	260	63	323
Federal funds sold	-	183	183
Total interest earning assets	\$ 7,058	\$ 2,083	\$ 9,141
<b><u>Interest bearing liabilities</u></b>			
Interest bearing transaction accounts	\$ 124	\$ 253	\$ 377
Savings and money market accounts	335	895	1,230
Time deposits	260	724	984
Short-term debt	(5)	9	4
Federal Home Loan Bank advances	(307)	7	(300)
Note payable	747	244	991
Total interest bearing liabilities	\$ 1,154	\$ 2,132	\$ 3,286
<b><u>Net interest income</u></b>			
Net interest income (taxable equivalent)	\$ 5,904	\$ (49)	\$ 5,855
Taxable equivalent adjustment	(132)	(75)	(207)
Net interest income	<u>\$ 5,772</u>	<u>\$ (124)</u>	<u>\$ 5,648</u>

Total interest income for the nine months ended September 30, 2019 was \$34.9 million and total interest expense was \$6.2 million, resulting in net interest income of \$28.8 million for the period. For the same period of 2018, total interest income was \$26.0 million and total interest expense was \$2.9 million, resulting in net interest income of \$23.1 million for the period. This represents a 24.43% increase in net interest income when comparing the same period from 2019 and 2018. When comparing the variances related to interest income for the nine months ended September 30, 2019 and 2018, the increase was primarily attributed to increases in average volumes in loans and investment securities. The volume related increase in interest income for the period was also accompanied by an increase in the yield on loans and investment securities. When comparing variances related to interest expense for the nine months ended September 30, 2019 and 2018, the increase resulted primarily from an increase in the effective rates paid on deposit accounts as well as from the increased interest expense on the note payable related to the PSB merger.

## Provision for Loan Losses

The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's evaluation, is adequate to provide coverage for estimated losses on outstanding loans and to provide for uncertainties in the economy. As a result of evaluating the allowance for loan losses at September 30, 2019, management recorded a provision of \$540 thousand in the third quarter of 2019 compared to a provision of \$480 thousand in the third quarter of 2018. The increase in the provision was primarily related to the continued loan growth from September 30, 2018 to September 30, 2019.

The allowance for loan losses is increased by a provision for loan losses, which is a charge to earnings, and it is decreased by loan charge-offs and increased by recoveries on loans previously charged off. In determining the adequacy of the allowance for loan losses, we consider our historical loan loss experience, the general economic environment, our overall portfolio composition and other relevant information. As these factors change, the level of loan loss provision changes. When individual loans are evaluated for impairment and impairment is deemed necessary, a specific allowance is required for the impaired portion of the loan amount. Subsequent changes in the impairment amount will generally cause corresponding changes in the allowance related to the impaired loan and corresponding changes to the loan loss provision. As of September 30, 2019, the recorded allowance related to impaired loans was \$378 thousand. As of September 30, 2018, the recorded allowance related to impaired loans was \$739 thousand.

## Noninterest Income

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Service charges and fees	\$ 1,251	\$ 830	\$ 3,537	\$ 2,436
Investment brokerage revenue	24	44	69	102
Mortgage operations	1,255	700	2,344	1,807
Bank owned life insurance income	171	145	451	428
Net gain (loss) on sale of investment securities	(6)	(56)	(9)	(53)
Other noninterest income	153	80	363	265
Total noninterest income	<u>\$ 2,848</u>	<u>\$ 1,743</u>	<u>\$ 6,755</u>	<u>\$ 4,985</u>

Noninterest income for the three months ended September 30, 2019 was \$2.8 million compared to \$1.7 million for the same period in 2018. The increase of \$421 thousand in service charges and fees was primarily related to an increase in the number of deposit accounts and activity within the deposit accounts which was mostly a result of the PSB merger.

Noninterest income for the nine months ended September 30, 2019 was \$6.8 million compared to \$5.0 million for the same period of 2018. The increase of \$1.1 million in service charges and fees was primarily related to an increase in the number of deposit accounts and activity within the deposit accounts which was mostly a result of the PSB merger.

## 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 September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Salaries and employee benefits	\$ 4,680	\$ 3,349	\$ 13,010	\$ 10,266
Occupancy expenses	513	366	1,487	1,099
Equipment rentals, depreciation, and maintenance	248	206	784	677
Telephone and communications	99	69	268	190
Advertising and business development	149	154	478	501
Data processing	939	480	2,346	1,326
Foreclosed assets, net	21	45	144	135
Federal deposit insurance and other regulatory assessments	16	81	210	241
Legal and other professional services	263	285	692	568
Other operating expense	1,331	915	3,826	2,612
Total noninterest expense	<u>\$ 8,259</u>	<u>\$ 5,950</u>	<u>\$ 23,245</u>	<u>\$ 17,615</u>

Noninterest expense for the three months ended September 30, 2019 totaled \$8.3 million compared with \$6.0 million for the same period of 2018. The increase in almost all noninterest expense line items were associated with the PSB merger. The increase was primarily a result of increases in salaries and employee benefits expense. Salaries and employee benefits increased \$1.3 million, or 39.74%, to \$4.7 million in the third quarter of 2019 from \$3.3 million in the third quarter of 2018. The number of full-time equivalent employees increased from approximately 143 at September 30, 2018 to approximately 190 at September 30, 2019 for an increase of approximately 32.87%. There was also a \$459 thousand and \$191 thousand increase in data processing and amortization expense related to the core deposit intangibles from the third quarter of 2018 to the third quarter of 2019. Equipment rentals, depreciation, and maintenance increased \$42 thousand, or approximately 20.39%, in the third quarter of 2019 as compared to the third quarter of 2018 as a result of the additional branches acquired in the PSB merger. Occupancy expenses also increased \$147 thousand which was also mostly as a result of the PSB merger.

Noninterest expense for the nine months ended September 30, 2019 totaled \$23.2 million compared with \$17.6 million for the same period of 2018. The increase was primarily a result of increases in salaries and employee benefits expense. Salaries and employee benefits increased \$2.7 million, or 26.73%, to \$13.0 million in the first nine months of 2019 from \$10.3 million in the first nine months of 2018. Approximately \$1.8 million of the increase in salaries and employee benefits expense was in regular salaries and wages with over \$900 thousand of the \$1.8 million increase due to the additional employees from the PSB merger. There was also a \$1 million and \$595 thousand increase in data processing and amortization expense related to the core deposit intangibles, respectively.

## Provision for Income Taxes

We recognized income tax expense of \$861 thousand for the three months ended September 30, 2019, compared to \$741 thousand for the three months ended September 30, 2018. The effective tax rate for the three months ended September 30, 2019 was 22.5% compared to 23.0% for the same period in 2018. The effective tax rate is affected by levels of items of income that are not subject to federal and/or state taxation and by levels of items of expense that are not deductible for federal and/or state income tax purposes.

We recognized income tax expense of \$2.3 million for the nine months ended September 30, 2019, compared to \$2.0 million for the nine months ended September 30, 2018. The increase of \$273 thousand, or 13.39%, resulted from the increase in net income before taxes of \$1.6 million in the first nine months of 2019 as compared to the first nine months of 2018. The effective tax rate for the nine months ended September 30, 2019 was 21.7% compared to 22.5% for the same period in 2018. The effective tax rate is affected by levels of items of income that are not subject to federal and/or state taxation and by levels of items of expense that are not deductible for federal and/or state income tax purposes.

## Comparison of Financial Condition at September 30, 2019 and December 31, 2018

### Overview

Our total assets increased \$69.4 million, or 6.48%, from December 31, 2018 to September 30, 2019. Loans, net of deferred fees and discounts, increased \$43.6 million, or 6.13%, from December 31, 2018 to September 30, 2019. Securities available-for-sale increased by \$7.5 million, or 3.29%, from December 31, 2018 to September 30, 2019. Cash and cash equivalents increased \$1.4 million, or 3.02% from December 31, 2018 to September 30, 2019 as funds were obtained from the sale of investment securities to fund loan growth. Total deposits increased \$74.9 million, or 8.34%, from December 31, 2018 to September 30, 2019. Federal Home Loan Bank advances decreased \$20 million or 100.00% from December 31, 2018 to September 30, 2019. Total stockholders' equity increased \$11.5 million, or 10.41% from December 31, 2018 to September 30, 2019 primarily due to decrease in the net unrealized loss on securities available-for-sale along with strong earnings for the year.

### Investment Securities

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

During the nine months ended September 30, 2019, we purchased investment securities totaling \$64.7 million and sold investment securities with proceeds received of \$28.9 million including net realized losses of \$9 thousand.

The following tables summarize the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of securities available-for-sale at September 30, 2019 and December 31, 2018 (amounts in thousands).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2019:</b>				
Securities available-for-sale:				
Residential mortgage-backed	\$ 121,101	\$ 614	\$ (824)	\$ 120,891
U.S. govt. sponsored enterprises	50,886	1,016	(45)	51,857
State, county, and municipal	58,298	1,943	(26)	60,215
Corporate debt obligations	3,151	29	-	3,180
Totals	<u>\$ 233,436</u>	<u>\$ 3,602</u>	<u>\$ (895)</u>	<u>\$ 236,143</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2018:</b>				
Securities available-for-sale:				
Residential mortgage-backed	\$ 108,915	\$ 45	\$ (4,027)	\$ 104,933
U.S. govt. sponsored enterprises	63,833	367	(278)	63,922
State, county, and municipal	57,417	219	(476)	57,160
Corporate debt obligations	2,670	7	(62)	2,615
Totals	<u>\$ 232,835</u>	<u>\$ 638</u>	<u>\$ (4,843)</u>	<u>\$ 228,630</u>

### Loans

Loans are the largest category of interest earning assets and typically provide higher yields than other types of interest earning assets. Associated with the higher loan yields are the inherent credit and liquidity risks which management attempts to control and counterbalance. Total loans averaged \$746.0 million during the three months ended September 30, 2019, or 72.1% of average interest earning assets, as compared to \$627.4 million, or 79.3% of average interest earning assets, for the three months ended September 30, 2018. At September 30, 2019, total loans, net of deferred loan fees and discounts, were \$754.9 million, compared to \$711.3 million at December 31, 2018, an increase of \$43.6 million, or 6.13%

The organic, or non-acquired, 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 September 30, 2019, and December 31, 2018.

	September 30, 2019		December 31, 2018	
	Amount	% of Total	Amount	% of Total
<b>Residential real estate:</b>				
Closed-end 1-4 family - first lien	\$ 173,771	23.3%	\$ 162,249	23.0%
Closed-end 1-4 family - junior lien	6,231	0.8%	5,739	0.8%
Multi-family	16,140	2.2%	16,938	2.4%
Total residential real estate	196,142	26.3%	184,926	26.2%
<b>Commercial real estate:</b>				
Nonfarm nonresidential	244,728	32.7%	209,391	29.7%
Farmland	11,475	1.5%	10,417	1.5%
Total commercial real estate	256,203	34.2%	219,808	31.2%
<b>Construction and land development:</b>				
Residential	45,990	6.2%	39,680	5.6%
Other	50,545	6.8%	62,430	8.9%
Total construction and land development	96,535	13.0%	102,110	14.5%
Home equity lines of credit	43,519	5.8%	39,040	5.5%
<b>Commercial loans:</b>				
Other commercial loans	104,304	14.0%	112,927	16.0%
Agricultural	1,506	0.2%	1,743	0.2%
State, county, and municipal loans	21,527	2.9%	19,756	2.9%
Total commercial loans	127,337	17.1%	134,426	19.1%
<b>Consumer loans</b>				
Total gross loans	757,153	101.4%	714,177	101.3%
Allowance for loan losses	(7,588)	-1.0%	(6,577)	-0.9%
Net deferred loan fees and discounts	(2,267)	-0.3%	(2,915)	-0.4%
Net loans	\$ 747,298	100.1%	\$ 704,685	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 September 30, 2019, this category totaled \$548.9 million, or 72.49% of total gross loans, compared to \$506.8 million, or 70.97%, at December 31, 2018. Real estate loans increased \$42.1 million, or 8.31%, during the period December 31, 2018 to September 30, 2019. Commercial loans decreased \$7.1 million, or 5.27% 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:		As of and for the Nine Months Ended:	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Allowance for loan losses at beginning of period	\$ 7,104	\$ 5,870	\$ 6,577	\$ 4,881
<b>Charge-offs:</b>				
Mortgage loans on real estate:				
Residential real estate	-	41	587	41
Commercial real estate	-	109	-	109
Construction and land development	-	-	-	-
Total mortgage loans on real estate	-	150	587	150
Home equity lines of credit	-	-	-	20
Commercial	54	157	175	232
Consumer	56	16	157	46
Total	110	323	919	448
<b>Recoveries:</b>				
Mortgage loans on real estate:				
Residential real estate	-	1	7	14
Commercial real estate	8	1	107	6
Construction and land development	7	8	15	34
Total mortgage loans on real estate	15	10	129	54
Home equity lines of credit	-	-	50	12
Commercial	30	25	98	111
Consumer	9	1	33	13
Total	54	36	310	190
Net charge-offs (recoveries)	56	287	609	258
Provision for loan losses	540	480	1,620	1,440
Allowance for loan losses at end of period	\$ 7,588	\$ 6,063	\$ 7,588	\$ 6,063
Total loans outstanding, net of deferred loan fees	754,886	641,365	754,886	641,365
Average loans outstanding, net of deferred loan fees	745,977	627,388	734,975	596,132
Allowance for loan losses to period end loans	1.01%	0.95%	1.01%	0.95%
Net charge-offs (recoveries) to average loans (annualized)	0.03%	0.18%	0.11%	0.06%

#### 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).

	September 30, 2019		December 31, 2018	
	Amount	Percent of Total	Amount	Percent of Total
<b>Mortgage loans on real estate:</b>				
Residential real estate	\$ 1,251	16.5%	\$ 1,579	24.0%
Commercial real estate	2,954	38.9%	1,961	29.8%
Construction and land development	929	12.2%	942	14.3%
Total mortgage loans on real estate	5,134	67.6%	4,482	68.1%
Home equity lines of credit	452	6.0%	394	6.0%
Commercial	1,625	21.4%	1,375	20.9%
Consumer	377	5.0%	326	5.0%
Total	\$ 7,588	100.0%	\$ 6,577	100.0%



## Nonperforming Assets

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

	September 30,		December 31,
	2019	2018	2018
Nonaccrual loans	\$ 1,894	\$ 2,204	\$ 2,740
Accruing loans past due 90 days or more	82	222	19
Total nonperforming loans	1,976	2,426	2,759
Foreclosed assets	1,117	723	496
Total nonperforming assets	\$ 3,093	\$ 3,149	\$ 3,255
Allowance for loan losses to period end loans	1.01%	0.95%	0.92%
Allowance for loan losses to period end nonperforming loans	384.01%	249.92%	238.38%
Net charge-offs (recoveries) to average loans (annualized)	0.11%	0.06%	0.04%
Nonperforming assets to period end loans and foreclosed property	0.41%	0.49%	0.46%
Nonperforming loans to period end loans	0.26%	0.38%	0.39%
Nonperforming assets to total assets	0.27%	0.36%	0.30%
Period end loans	754,886	641,365	711,262
Period end total assets	1,139,828	871,552	1,070,464
Allowance for loan losses	7,588	6,063	6,577
Average loans for the period	734,975	596,132	619,238
Net charge-offs for the period	609	258	264
Period end loans plus foreclosed property	756,003	642,088	711,758

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

## Deposits

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

The following table details the composition of our deposit portfolio as of September 30, 2019, and December 31, 2018.

	September 30, 2019		December 31, 2018	
	Amount	Percent of Total	Amount	Percent of Total
Demand deposits, non-interest bearing	\$ 263,157	26.9%	\$ 241,274	26.8%
Demand deposits, interest bearing	247,089	25.4%	239,463	26.6%
Money market accounts	226,461	23.3%	200,143	22.3%
Savings deposits	57,141	5.9%	55,733	6.2%
Time certificates of \$250 thousand or more	57,075	5.9%	47,251	5.3%
Other time certificates	122,694	12.6%	114,843	12.8%
Totals	\$ 973,617	100.0%	\$ 898,707	100.0%



Total deposits were \$974 million at September 30, 2019, an increase of \$75 million from December 31, 2018 with the increase resulting mainly in the balances of money market accounts and demand deposit accounts. Some of our demand deposit accounts are seasonal and typically have larger balances at year-end than at the end of other calendar quarters. The seasonality of these demand deposits is related to property tax collections and to agricultural production.

The following table presents the Bank's time certificates of deposits by various maturities as of September 30, 2019 (amounts in thousands).

	All Time Deposits	Time Deposits \$100 or more	Time Deposits less than \$100
Three months or less	\$ 24,513	\$ 14,936	\$ 9,577
Greater than three months through six months	30,926	17,945	12,981
Greater than six months through one year	76,500	50,757	25,743
Greater than one year through three years	39,022	27,437	11,585
Greater than three years	8,808	6,126	2,682
Total	<u>\$ 179,769</u>	<u>\$ 117,201</u>	<u>\$ 62,568</u>

### Other Funding Sources

We supplement our deposit funding with wholesale funding when needed for balance sheet planning and management or when the terms are attractive and will not disrupt our offering rates in our markets. A source we have used for wholesale funding is the Federal Home Loan Bank of Atlanta (FHLB). The line of credit with the FHLB is secured by pledges of various loans in our loan portfolio. At September 30, 2019, the FHLB line of credit available was \$132.4 million and at December 31, 2018 it was \$116.8 million. As of September 30, 2019 we have no Federal Home Loan Bank advances outstanding compared to \$20 million at December 31, 2018. We also have lines of credit for federal funds borrowings with other banks that totaled \$38.5 million at September 30, 2019 and December 31, 2018. Furthermore, we have pledged certain loans to the Federal Reserve Bank (FRB) to secure a line of credit. At September 30, 2019, the FRB line of credit available was \$117.9 million and at December 31, 2018, the FRB line of credit available was \$116.5 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 shareholders of Keystone Bancshares according to the merger agreement. The loan was scheduled to mature on December 31, 2022, but was paid in full during 2018. The interest rate was floating and was equal to the Wall Street Journal Prime Rate. Quarterly principal payments of \$268 thousand plus accrued interest were due on March 31, June 30, September 30, and December 31 of each year.

On October 31, 2018, the Company entered into a loan agreement with CenterState Bank for \$27 million. The loan proceeds were drawn and received by the Company on October 31, 2018. The loan proceeds were used to fund the payment of the cash consideration to the PSB shareholders of \$24.5 million in accordance with the PSB merger agreement and for general corporate purposes. The loan carries a fixed interest rate of 6%. The loan is secured by all of the common stock of the Bank. The balance at December 31, 2018 was \$27 million. Principal and interest payments are due quarterly and began in January 2019. The final principal payment will be paid at October 30, 2025. The terms of the loan agreement require the Bank to maintain a classified assets to tier 1 capital plus ALLL ratio not to exceed 40%, a tier 1 leverage ratio of at least 8%, a total risk-based ratio of at least 12%, and a fixed charge coverage ratio of at least 1:3:1 times. The loan agreement also requires the Bank to maintain at least \$2 million in liquid assets at all times during the term of the loan.

Principal payments on the CenterState Bank Loan are due as follows:

September 30, 2019 - September 30, 2020	\$	3,339
October 1, 2020 - September 30, 2021		3,550
October 1, 2021 - September 30, 2022		3,771
October 1, 2022 - September 30, 2023		4,006
October 1, 2023 - September 30, 2024		4,254
Afterward		5,665
Total	<u>\$</u>	<u>24,585</u>

## Liquidity

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

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

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

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

Cash and cash equivalents at September 30, 2019 and December 31, 2018, were \$48.9 million and \$47.5 million, respectively. Based on recorded cash and cash equivalents, management believes River Financial Corporation's liquidity resources were sufficient at September 30, 2019 to fund loans and meet other cash needs as necessary.

## Off-Balance Sheet Arrangements

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

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

Financial instruments whose contract amount represents credit risk at September 30, 2019 and December 31, 2018 were as follows (amounts in thousands):

	September 30, 2019	December 31, 2018
Commitments to extend credit	\$ 166,169	\$ 146,462
Stand-by and performance letters of credit	4,732	5,412
Total	<u>\$ 170,901</u>	<u>\$ 151,874</u>

## Contractual Obligations

While our liquidity monitoring and management considers both present and future demands for and sources of liquidity, the following table of contractual commitments focuses only on future obligations as of September 30, 2019 (amounts in thousands).

	Due in 1 year or less	Due after 1 through 3 years	Due after 3 through 5 years	Due after 5 years	Total
Deposits without a stated maturity	\$ 793,848	\$ -	\$ -	\$ -	\$ 793,848
Certificates of deposit of less than \$100	48,301	11,585	2,595	87	62,568
Certificates of deposit of \$100 or more	83,638	27,437	6,126	-	117,201
Securities sold under agreements to repurchase	9,717	-	-	-	9,717
Note payable	3,339	7,321	8,260	5,665	24,585
Operating leases	618	1,130	1,005	797	3,550
<b>Total contractual obligations</b>	<b>\$ 939,461</b>	<b>\$ 47,473</b>	<b>\$ 17,986</b>	<b>\$ 6,549</b>	<b>\$ 1,011,469</b>

## Capital Position and Dividends

At September 30, 2019 and December 31, 2018, total stockholders' equity was \$121.6 million and \$110.1 million, respectively. The increase of \$11.5 million resulted mainly from the net change in retained earnings and other comprehensive income for the nine months ended September 30, 2019. Retained earnings for the first nine months of 2019 increased \$6.4 million and other comprehensive income increased \$5.2 million. The ratio of stockholders' equity to total assets was 10.67% and 10.29% at September 30, 2019 and December 31, 2018, respectively.

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

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

Management believes, as of September 30, 2019, that the Bank meets all capital adequacy requirements to which it is subject. The following table presents the Bank's capital amounts and ratios as of September 30, 2019 with the required minimum levels for capital adequacy purposes including the phase in of the capital conservation buffer under Basel III and minimum levels to be well capitalized (as defined) under the regulatory prompt corrective action regulations.

### As of September 30, 2019:

	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)	\$ 121,615	14.403%	\$ 88,660	>= 10.500%	\$ 84,438	>= 10.00%
Common Equity Tier 1 Capital (To Risk-Weighted Assets)	114,028	13.504%	59,107	>= 7.000%	54,885	>= 6.50%
Tier 1 Capital (To Risk-Weighted Assets)	114,028	13.504%	71,773	>= 8.500%	67,551	>= 8.00%
Tier 1 Capital (To Average Assets)	114,028	10.291%	44,320	>= 4.000%	55,399	>= 5.00%

Management believes, as of December 31, 2018, 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, 2018 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, 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)	\$ 115,721	14.253%	\$ 80,174	>= 9.875%	\$ 81,189	>= 10.00%
Common Equity Tier 1 Capital (To Risk-Weighted Assets)	109,144	13.443%	51,758	>= 6.375%	52,773	>= 6.50%
Tier 1 Capital (To Risk-Weighted Assets)	109,144	13.443%	63,936	>= 7.875%	64,951	>= 8.00%
Tier 1 Capital (To Average Assets)	109,144	14.006%	31,172	>= 4.000%	38,965	>= 5.00%

River Financial Corporation's principal source of funds for dividend payments and debt service is dividends received from River Bank & Trust. There are statutory limitations on the payment of dividends by River Bank & Trust to River Financial Corporation. As of September 30, 2019, the maximum amount the Bank could dividend to River Financial Corporation without prior regulatory authority approval was approximately \$13.5 million. In addition to dividend restrictions, federal statutes prohibit unsecured loans from banks to bank holding companies.

During the nine months ending September 30, 2019 there were 63,500 incentive stock options issued with a weighted average exercise price of \$27.00 per share. During the same period, there were 21,300 incentive stock options exercised at a weighted average exercise price of \$13.21 per share. A total of 367,625 incentive stock options were outstanding as of September 30, 2019 with a weighted average exercise price of \$20.07 per share and a weighted average remaining life of 6.69 years.

**Interest Sensitivity and Market Risk**

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

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

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

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

The following table illustrates our interest rate sensitivity at September 30, 2019, 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
<b>Interest earning assets</b>							
Loans	\$ 141,723	\$ 49,060	\$ 156,880	\$ 140,968	\$ 91,427	\$ 174,828	\$ 754,886
Securities	12,884	18,912	27,361	32,937	30,225	113,824	236,143
Certificates of deposit in banks	955	461	1,232	496	247	1,445	4,836
Cash balances in banks	16,789	-	-	-	-	-	16,789
Federal funds sold	13,135	-	-	-	-	-	13,135
Total interest earning assets	\$ 185,486	\$ 68,433	\$ 185,473	\$ 174,401	\$ 121,899	\$ 290,097	\$ 1,025,789
<b>Interest bearing liabilities</b>							
Interest bearing transaction accounts	\$ 101,345	\$ 4,942	\$ 22,201	\$ 29,652	\$ 29,652	\$ 59,297	\$ 247,089
Savings and money market accounts	161,427	4,986	22,437	29,916	29,916	34,920	283,602
Time deposits	7,707	18,379	104,999	27,092	11,765	9,827	179,769
Securities sold under agreements to repurchase	9,717	-	-	-	-	-	9,717
Note payable	814	-	2,525	3,550	3,771	13,925	24,585
Total interest bearing liabilities	\$ 281,010	\$ 28,307	\$ 152,162	\$ 90,210	\$ 75,104	\$ 117,969	\$ 744,762
<b>Interest sensitive gap</b>							
Period gap	\$ (95,524)	\$ 40,126	\$ 33,311	\$ 84,191	\$ 46,795	\$ 172,128	\$ 281,027
Cumulative gap	\$ (95,524)	\$ (55,398)	\$ (22,087)	\$ 62,104	\$ 108,899	\$ 281,027	
Cumulative gap - Rate Sensitive Assets/ Rate Sensitive Liabilities	-9.3%	-5.4%	-2.2%	6.1%	10.6%	27.4%	

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

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

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

	Impact on net interest income	
	As of September 30, 2019	As of December 31, 2018
Change in prevailing rates:		
+ 400 basis points	(2.66)%	(4.94)%
+ 300 basis points	(1.62)%	(3.49)%
+ 200 basis points	(0.61)%	(2.10)%
+ 100 basis points	(0.25)%	(0.85)%
+ 0 basis points	-	-
- 100 basis points	(0.91)%	(0.08)%
- 200 basis points	(3.74)%	(4.43)%
- 300 basis points	(3.47)%	(7.25)%
- 400 basis points	(3.96)%	(8.38)%

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

This item is not applicable to smaller reporting companies.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### *Evaluation of Disclosure Controls and Procedures*

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

#### *Changes in Internal Control over Financial Reporting*

There has been no change in the Company's internal control over financial reporting during the nine months ended September 30, 2019 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**

As of November 5, 2019, we are not subject to any material pending legal proceedings or contemplated governmental actions.

### **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, 2018 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 2019 and 2018, the Company sold 11,539 and 17,218 shares of its common stock for an aggregate of \$276,936 and \$429,877 in cash, respectively, to its employee stock ownership plan. The Company has relied upon exemptions from registration under SEC Rule 147A.

On October 31, 2018, the Company issued shares of its common stock in a capital raise under SEC Rule 506 (b) and pursuant to the acquisition of PSB Bancshares, Inc. as reported at Item 3.02 of its current report on Form 8-K filed November 2, 2018.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

On October 16, 2019, the Board of Directors of the Company approved two amendments to the Company’s bylaws. One amendment provides that the annual meeting of shareholders shall be held during the third week of May each year, rather than in the month of April. The second amendment provides that shares of stock of the Company may be issued in certificated or uncertificated form, rather than certificated only. Holders of shares are entitled to continue to have shares represented in certificated form, provided that the Board of Directors in the future may provide for some or all of any class or services of stock to be uncertificated.

The amendments are included at Exhibit 3.3 to this Form 10-Q.



**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
2.1*	Agreement and Plan of Merger by and among River Financial Corporation, RFC Acquisition Corporation, and PSB Bancshares, Inc, dated as of July 10, 2018, filed as Exhibit 2.1 to River Financial Corporation's Form 8-K filed July 16, 2018, incorporated herein by reference.
2.2*	Agreement and Plan of Merger by and between River Financial Corporation and Trinity Bancorp, Inc., dated as of June 4, 2019, filed as Exhibit 2.1 to River Financial Corporation's Form 8-K filed June 5, 2019, incorporated herein by reference.
3.1	Articles of Incorporation of River Financial Corporation, as amended, included as Exhibit 3.1 in the River Financial Corporation Form 10-Q filed May 7, 2019 and incorporated herein by reference.
3.2**	Bylaws of River Financial Corporation, as amended, as of December 31, 2015.
3.3**	Amendments to bylaws of River Financial Corporation dated October 16, 2019.
4.1	Article IV and Article V of the Articles of Incorporation, as amended, filed at Exhibit 3.1 to the Registrants' Form 10-Q filed May 7, 2019, and Article II and Article VI of the bylaws, as amended, included as Exhibit 3.2 of the Registrants' Form 10-K filed March 28, 2016, and incorporated herein by reference.
31.1**	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
31.2**	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
32 **	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.
101.INS	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

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

\*\* Filed herewith.

## Index to Exhibits

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

<b>Exhibit Number</b>	<b>Description</b>
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\* Schedules omitted. Registrant agrees to furnish a copy of any omitted schedule to the SEC upon request.

\*\* Filed herewith.

## SIGNATURES

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

RIVER FTNANCIAL CORPORATION

Date: November 5, 2019

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

Date: November 5, 2019

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

**RIVER FINANCIAL CORPORATION**

**BY-LAWS**

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**RIVER FINANCIAL CORPORATION  
BYLAWS**

**ARTICLE I  
Offices**

**1.1. Registered Office.** The registered office of the Corporation, as designated in the Articles of Incorporation, may be changed from time to time by resolution of the Board of Directors and by filing notice of such change as required by law.

**1.2. Principal Office.** The Corporation's principal office will be in the City of Prattville, County of Elmore, and State of Alabama.

**1.3. Other Offices.** The Corporation may also have offices at such other places both within and without the State of Alabama as the Board of Directors may from time to time determine or the business of the Corporation may require to the extent not prohibited by law.

**ARTICLE II  
Meetings of Shareholders**

**2.1. Location.** All meetings of shareholders shall be held at the Corporation's principal office, or at such other place either within or without the State of Alabama as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting.

**2.2 Annual Meetings.** The annual meeting of shareholders shall be held on a day in April. At the annual meeting, the shareholders shall elect a Board of Directors by plurality vote, and shall transact any other business as may properly come before the meeting.

**2.3. Special Meetings.** Special meetings of shareholders for any purpose or purposes, unless otherwise prescribed by statute or by the Articles of Incorporation, may be called by (i) the Chairman, the President or the Board of Directors; (ii) the holders of not less than ten percent (10%) of all the shares entitled to be cast on any issue proposed to be considered at the proposed special meeting or if such holders sign, date and deliver to the Corporation's President or Secretary one or more written demands for the meeting describing the purpose or purposes for which it is to be held, who shall, within 21 days of the receipt of such demand, cause notice to be given of the meeting to be held within the minimum time following the notice prescribed in Section 4 below; or (iii) the holders of not less than ten percent (10%) of the votes entitled to be cast at the special meeting who signed a demand under clause (ii) above if notice was not given within the 21 days after such demand or the special meeting was not held in accordance with the notice.

**2.4. Notice of Shareholders' Meetings.** Written notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (10) nor more than sixty (60) days before the date of the meeting, either personally or by mail, by or at the direction of the President, the Secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the shareholder at his address as it appears on the stock transfer books of the Corporation, with postage thereon prepaid. The capital stock or bonded indebtedness of the Corporation shall not be increased at any meeting unless thirty (30) days' notice has been given before the date of the meeting, or pursuant to such lesser or greater requirements of Section 234 of the Constitution of Alabama as the same may be amended from time to time.

**2.5. Shareholder List.** After fixing a record date for a meeting, the officer having charge of the stock transfer books for shares of the Corporation shall prepare an alphabetical list of the names of all its shareholders who are entitled to notice of a shareholders' meeting. The list must be arranged by voting group (and within each voting group by class or series of shares) and show the address of and number of shares held by each shareholder. The shareholders' list must be available for inspection by any shareholder, beginning two business days after notice of the meeting is given for which the list was prepared and continuing through the meeting, at the Corporation's principal office. A shareholder, or his or her agent or attorney, is entitled on written demand to inspect and, for a proper purpose, to copy the list, during regular hours and at its expense, during the period it is available for inspection. The Corporation shall make the list available at the meeting, and any shareholder, or his or her agent or attorney, is entitled to inspect the list at any time during the meeting or any adjournment thereof. The stock transfer records of the Corporation shall be prima facie evidence as to who are the shareholders entitled to examine the shareholders' list or transfer records or to vote at any meeting of shareholders.

**2.6. Business of Special Meetings.** Business transacted at any special meeting of shareholders shall be limited to the purposes stated in the notice.

**2.7. Quorum of Shareholders.** A majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at all meetings of shareholders. If, however, such quorum is not present or represented at any meeting of the shareholders, the shareholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, written notice of the adjourned meeting shall be given to the shareholders entitled to vote at the meeting. Every meeting of the shareholders may be adjourned from time to time until its business is completed, and except as provided herein or by applicable law, no notice need be given of such adjourned meeting.

**2.8. Action by Shareholders.** If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on the subject matter shall be the act of the shareholders, unless the vote of a greater number or voting by classes is required by the Constitution of Alabama as the same may be amended from time to time, statute, or the Articles of Incorporation.

**2.9. Voting.** Each shareholder shall at every meeting of the shareholders be entitled to one (1) vote in person or by proxy for each Share having voting power held by such shareholder. A proxy may be appointed by an instrument in writing subscribed by such shareholder or his duly authorized attorney-in-fact. The proxy holder need not be a shareholder. No proxy shall be valid after eleven months from the date of its execution, unless otherwise provided in the proxy.

**2.10. Waiver of Notice.** Whenever any notice is required to be given to any shareholder, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice. A shareholder's attendance at a meeting: (i) waives objection to lack of notice or defective notice of the meeting, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting and (2) waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder objects to considering the matter before action is taken on the matter.

**2.11. Action by Shareholders Without a Meeting.** Any action required to be taken at a meeting of shareholders of the Corporation may be taken without a meeting if the action is taken by all shareholders entitled to vote on the action. The action must be evidenced by one or more written consents describing the action taken, signed by all the shareholders entitled to vote on the action, and such consent shall be delivered to the Corporation for inclusion in the minutes or filing with the corporate records. The record date for determining the shareholders entitled to take action without a meeting is the date the first shareholder signs the consent.

### **ARTICLE III** **Board of Directors**

**3.1. General Powers, Number, Tenure and Qualifications.** All corporate powers shall be exercised by or under authority of, and the business and affairs of the Corporation shall be managed under the direction of, its Board of Directors, comprised of not less than one (1) nor more than twenty (20) persons. The Board may increase or decrease by thirty percent (30%) or less the number of directors last approved by the shareholders, but only the shareholders may increase or decrease by more than thirty percent (30%) the number of directors last approved by the shareholders. Directors shall be natural persons of the age of at least nineteen (19) but need not be residents of the State of Alabama or shareholders of the Corporation. Directors shall be elected at each annual meeting of the shareholders, and shall hold office for one year terms or until their successors are elected and qualified.

**3.2 Vacancies.** If a vacancy occurs on the Board: (i) the shareholders may fill the vacancy, whether resulting from an increase in the number of directors or otherwise; (ii) the board of directors may fill the vacancy, except that the directors shall not have the power to fill a vacancy resulting from an increase in the number of directors by more than thirty percent (30%) of the number of directors last approved by the Shareholders, or (iii) if the directors remaining in office constitute fewer than a quorum of the Board, they may fill the vacancy, if it is one that the directors are authorized to fill, by the affirmative vote of a majority of all the directors remaining in office. A director elected to fill a vacancy shall be elected to serve until the next annual meeting of shareholders. If there are no directors in office, then the shareholders may hold a special meeting to elect directors.

**3.3 Location of Meetings.** Meetings of the Board of Directors, regular or special, shall be held at the Corporation's principal office unless otherwise specified in the notice thereof, in which event the meeting shall be held where specified in the notice, either within or without the State of Alabama.



**3.4. Organizational Meeting.** The first meeting of each newly-elected Board of Directors shall be held immediately after and in the same place as the annual meeting of Shareholders. No notice of such meeting shall be necessary to the newly-elected directors in order to legally constitute the meeting, provided a quorum is present.

**3.5. Regular Meetings.** Regular meetings of the Board of Directors shall be held on the day and time specified by resolution of the Board of Directors. No notice of regular meetings need be given, unless the time and place of such meetings are other than those stated therein.

**3.6. Special Meetings.** Special meetings of the Board of Directors may be called by the Chairman or President or any two (2) or more directors on twenty-four (24) hours' personal, telephonic, or telegraphic notice to each director, or preceded by at least two days' notice of the date, time and place of the meeting. The notice need not describe the purpose of the special meeting. Attendance at or participation by a director at a special meeting (i) waives objection to lack of any required notice or defective notice of the meeting, unless the director at the beginning of the meeting (or promptly upon arrival) objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting; and (ii) waives objection to consideration of a particular matter at the meeting that is not within the purpose described in the meeting notice, unless the director objects to considering the matter before action is taken on the matter.

**3.7. Meetings by Conference Telephone, etc.** Meetings of the Board of Directors and of any committee thereof may be held by means of a conference telephone, video, Internet or other communication by which all directors participating may simultaneously hear each other during the meeting. Participation by such means shall constitute presence in person at any such meeting.

**3.8. Quorum of Directors.** A majority of the fixed number of directors shall constitute a quorum for the transaction of business. If a quorum is present when a vote is taken, the affirmative vote of a majority of directors present is the act of the Board unless the Articles of Incorporation require the vote of a greater number of directors. A director is, unless established to the contrary, presumed present for quorum purposes for the remainder of the meeting at which he has been present for any purpose. A director who is present at a meeting of the Board or any committee of the Board when corporate action is taken is deemed to assent to the action taken unless (i) he objects at the beginning of the meeting (or promptly upon arrival) to holding it or transacting business at the meeting or, as to a matter required under the Articles of Incorporation or these By-Laws to be included in the notice of the purpose of the meeting, he objects before action is taken on the matter; (ii) his dissent or abstention from action taken is entered in the minutes of the meeting; or (iii) he delivers written notice of his dissent or abstention to the presiding officer of the meeting before its adjournment or to the Corporation immediately after adjournment of the meeting. The right of dissent or abstention is not available to a director who votes in favor of the action taken.

**3.9. Action Without a Meeting.** Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if the action is taken by all members of the Board and evidenced by one or more consents in writing, setting forth the action so taken, shall be signed by each member of the Board or committee, as the case may be, and included in the minutes or filed with the corporate records reflecting the action taken. Action taken is effective when the last director signs the consent, unless the consent specifies a different effective date. Such consent shall have the same effect as a unanimous vote.

**3.10. Committees.** The Board of Directors may create one (1) or more committees, each committee to consist of one (1) or more members, who serve at the pleasure of the Board. The creation of a committee and appointment of members to it must be approved by the greater of (i) a majority of all the directors in office when the action is taken or (ii) the number of directors required by the Articles of Incorporation or By-Laws to take action. To the extent specified by the Board or in the Articles of Incorporation or By-Laws, each committee may exercise the authority of the Board of Directors, shall have and may exercise all the authority of the Board of Directors in the management of the business and affairs of the Corporation; except that no such committee shall have the authority of the Board of Directors with reference to (1) authorizing distributions, (2) approving or proposing to shareholders actions requiring approval by shareholders, (3) filling vacancies on the board of directors or on any of its committees, (4) amending articles of incorporation, (5) adopting, amending or repealing these By-Laws, (6) approving a plan of merger not requiring shareholder approval, (7) authorizing or approving reacquisition of shares, except according to formula or method prescribed by the board of directors, or (8) authorizing or approving the issuance or sale or contract for sale of shares, or determining the designation and relative rights, except that the board of directors may authorize a committee (or a senior executive officer of the corporation) to do so within limits specifically prescribed by the board of directors.

**3.11. Committee Meetings, Minutes and Reports.** Meetings of any committee of the Board may be called by the President, or by the chairman of the committee, at any time upon personal, telephonic, telegraphic, written or such other notice as may be determined by such committee. A majority of the members of each committee may fix such committee's rules of procedure, determine its manner of acting, and fix the time and place, whether within or without the State of Alabama, of its meetings. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors whenever required or requested.

**3.12. Compensation.** The Board of Directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attending each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as directors. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

**3.13. Transactions with Directors, etc.** A director's conflicting interest transaction may not be enjoined, set aside, or give rise to an award of damages or other sanctions, in a proceeding by a shareholder or by or in the right of the Corporation, because the director, or any person with whom or which he or she has a personal, economic, or other association, has an interest in the transaction, if:

- (1) Director's action respecting the transaction was at any time taken in compliance with Section 10A-2-8.62; or
- (2) Shareholders' action respecting the transaction was at any time taken in compliance with Section 10A-2-8.63; or
- (3) The transaction, judged according to the circumstances at the time of commitment, is established to have been fair to the Corporation.

#### **ARTICLE IV**

##### **Notices**

**4.1. Manner of Giving Notice.** Except as otherwise required by law, whenever notice is required to be given to any director or shareholder, such notice requirement can be satisfied by giving written notice in person, or by telephone, telegraph, teletype, telecopier, facsimile transmission, or other form of wire or wireless communication, or by mail, postage pre-paid. Written notice by a domestic or foreign corporation to its shareholders is effective when mailed, if mailed postpaid and correctly addressed to the shareholder's address shown in the Corporation's current record of shareholders.

**4.2. Waiver of Notice.** Whenever any notice is required to be given to any shareholder or director of the Corporation, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice and shall be delivered to the Corporation for inclusion in the minutes or filing with the corporate records.

#### **ARTICLE V**

##### **Officers**

**5.1. Number.** The Board of Directors shall elect the Corporation's officers. The Board of Directors or a duly appointed officer may appoint one or more officers or assistant officers. The Board of Directors shall delegate to one of the officers responsibility for preparing minutes of the directors' and shareholders' meetings and for authenticating records of the Corporation. Any number of offices may be held by the same person.

**5.2. Election.** The Board of Directors, at its annual organizational meeting, may choose a Chairman, Vice Chairman, President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers as it deems necessary or desirable. If the officers, or any of them, for any reason should not be elected at the Board of Directors' organizational meeting, they may be elected at any regular or special meeting of the Board of Directors.

**5.3. Appointive Officers.** The Board may from time to time appoint or delegate the appointment of such other officers as it may deem necessary, including one or more Assistant Secretaries and one or more Assistant Treasurers. Such officers shall hold office for such period, have such authority and perform such duties, subject to the control of the Board, as are in these By-Laws provided or as the Chairman of the Board, the President or the Board may from time to time prescribe. The President shall have authority to appoint and remove agents and employees and to prescribe their powers and duties and may authorize any other officer or officers to do so.

**5.4. Compensation.** The salaries and other compensation of the Corporation's principal officers shall be fixed by the Board of Directors, after taking account of any recommendations by any committee which is authorized to advise the Board with respect to compensation. The Board may from time to time delegate to any principal officer or to any committee power to fix the salaries and other compensation for all other Corporation officers, employees and agents. The action of the Board of Directors in so fixing officer compensation shall not be rendered invalid by reason of the fact that a director voted in favor of a resolution fixing his own salary or by reason of the fact that his presence was necessary to constitute a quorum of the Board.

**5.5 Term, Removal, Resignation and Vacancies.** The Corporation's officers shall hold office until their successors are elected and qualified. Any officer may be removed at any time with or without cause by the affirmative vote of a majority of the Board of Directors. An officer may resign at any time by giving notice to the Corporation. A resignation is effective when the notice is given unless the notice specifies a later effective date. If a resignation is made effective at a later date and the Corporation accepts the future effective date, the Board may fill the pending vacancy before the effective date if the Board provides that the successor does not take office until the effective date. Any vacancy occurring in any office of the Corporation shall be filled in the manner prescribed in these By-Laws for regular election or appointment to such office.

**5.6. Chairman of the Board.** The Chairman of the Board shall, when present, preside at all meetings of the Board of Directors, and of the shareholders. In general, he shall perform all the duties incident to the office of Chairman of the Board, and such other duties as the board may from time to time determine or as may be prescribed by these By-Laws.

**5.7. Vice Chairman.** The Vice Chairman, in the absence, inability or disability of the Chairman, shall perform the Chairman's duties. The Vice Chairman shall have such other duties as may be prescribed by the Board of Directors from time to time.

**5.8. President.** The President shall be the chief executive officer of the Corporation, and subject to the control of the Board of Directors, shall determine the Corporation's basic policies, have general supervision of its business and affairs and be responsible for all internal operations of the Corporation. The President shall report to the Board of Directors, and shall be responsible for personnel, and shall designate and assign the duties of the officers under his supervision, at the direction or with the approval of the Board of Directors.

The President shall have the authority to execute bonds, mortgages and other contracts and instruments requiring a seal, under the seal of the Corporation; and shall have the authority to endorse, when sold, assigned, transferred, or otherwise disposed of, all certificates for shares of stock, bonds, securities or evidences of indebtedness issued by other corporations, associations, trusts, individuals or entities, whether public or private, or by any government or agency thereof, which are owned or held by the Corporation, and to make, execute and deliver all instruments of assignment or transfer of any stocks, bonds, securities, evidences of indebtedness, agreements, or other property owned or held by the Corporation in any capacity. He shall, under the supervision of the Board, be responsible for all investments of the Corporation and shall have full authority to do any and all things delegated to him by the Board of Directors or by any committee of the Board having authority.

**5.9. Vice Presidents.** The Vice Presidents, in order of their seniority or as designated by the Board of Directors, shall in the absence, inability or disability of the President, perform the duties and exercise the powers of said office, and when so acting shall be subject to all restrictions upon the President. At all other times the Vice Presidents shall perform such other duties and exercise such other powers as the Board of Directors may prescribe, or as the President may delegate.

**5.10. Treasurer.** The Treasurer shall be the Corporation's chief financial officer and shall have the custody of such property and assets of the Corporation as may be entrusted to him by the Board of Directors or by the President. He shall, subject to the general supervision of the Board of Directors and any audit committee thereof, have general supervision and authority over the Corporation's books and accounts, its methods and systems of recording and keeping account of its business transactions and of its assets and liabilities, and within such authority, prepare and deliver all reports and returns required of the Corporation by law or by any governmental or regulatory authority pertaining to the condition of the Corporation and its assets and liabilities. He shall be responsible for preparing statements showing the Corporation's financial condition and results of operation, and shall furnish such reports and financial records as may be required or requested by the Board of Directors, the Chairman or the President. He shall receive and give receipt for funds due and payable to the Corporation, shall have charge and custody of all funds and securities of the Corporation and shall deposit all such funds in the Corporation's name in such banks and depositories selected or authorized by the Board. The Treasurer shall perform or cause to be performed all duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board.

**5.11. Assistant Treasurers.** The Assistant Treasurer, or if there are more than one, the Assistant Treasurers in the order designated by the Board of Directors shall, in the absence of the Treasurer or in the event of his inability or refusal to act, perform the duties and exercise the powers of the Treasurer, and at all other times shall perform such duties and have such powers as the Board of Directors, the Chairman, the President or the Treasurer may prescribe from time to time.

**5.12. Secretary.** The Secretary shall attend all meetings of the Board of Directors and of the shareholders, and shall keep the minutes of all proceedings of such meetings in books kept for these purposes, and shall perform like duties for the standing committees of the Board when required. The Secretary shall perform such other duties as may be prescribed by the Board of Directors, the Chairman or the President. He shall have custody of the corporate seal of the Corporation and shall affix the same to any instrument requiring it, and when so affixed, it may be attested by his signature or by the signature of any Assistant Secretary. The Secretary shall also keep a stock ledger containing the names of all persons who are now or hereafter become shareholders of the Corporation showing their places of residence, the respective number of shares held by them, and the time when they respectively became the holders of such shares.

**5.13. Assistant Secretary.** The Assistant Secretary, or if there are more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there is no such determination, then in the order of their election), shall, in the absence of the Secretary or in the event of his inability or refusal to act, perform the duties and exercise the power of the Secretary, and at all other times shall perform such other duties and have such other powers as the Board of Directors, the Chairman, the President or the Secretary may from time to time prescribe.

**5.14. Corporation, Officer and Employee Bonds.** The Board of Directors shall fix and prescribe the amount of bond, if any, that may be required of the Corporation, and of each officer and employee of the Corporation. Such bonds shall be made by a bonding company or companies authorized to make such bonds in Alabama or any other applicable jurisdiction, and in such form as may be approved by the Corporation's Board of Directors. The Board of Directors may in its discretion, require an increase in the amount of such bond or other additional bond and security, as the Board deems necessary, desirable or expedient for the better protection of the Corporation and those with whom it does business.

**5.15 Execution of Instruments.** The Chairman and the President are authorized, in their discretion, and to the extent permitted herein and by law, to do and perform any and all corporate and official acts in carrying on the Corporation's business, including, but not limited to, the authority to make, execute, acknowledge and deliver all deeds, mortgages, releases, bills of sale, assignments, transfers, leases, powers of attorney or of substitution, proxies to vote stock, or any other instrument in writing that may be necessary in the purchase, sale, lease, assignment, transfer, management or handling in any way of property of any description held or controlled by the Corporation, in any capacity. This shall include authority from time to time, to borrow money in such amounts, for such lengths of time, at such rates of interest and upon such terms and conditions as any said officer may deem proper, and to evidence the indebtedness thereby created by executing and delivering in the Corporation's name, promissory notes or other appropriate evidences of indebtedness. The enumeration herein of particular powers shall not restrict in any way the general powers and authority of said officers. The Board may authorize any other officer or officers or agent or agents to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be delegated by the person so authorized; but unless so authorized by the Board or these By-Laws, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or to any amount. In addition to the Treasurer, the Secretary or any Vice President, Assistant Treasurer or Assistant Secretary is authorized to attest the signature of the President or Chairman and to affix the corporate seal to any and all instruments requiring such attestation or execution under seal.

**5.16. Receipts, Checks, Drafts, etc.** All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, or agent or agents, as shall from time to time be determined by resolution of the Board. The President, any Vice President, the Treasurer, any Assistant Treasurer or any other officer or employee designated by the Board of Directors, is authorized and empowered on behalf of the Corporation and in its name to endorse checks and warrants, to draw drafts, to give receipts for money due and payable to the Corporation, and to sign such other papers and do such other acts as are necessary or appropriate to perform his duties.

## **ARTICLE VI** **Capital Stock**

**6.1. Certificates.** Every holder of fully-paid Corporation shares shall be entitled to have a certificate, signed in the Corporation's name by the Chairman, the President, the Treasurer or a Vice-President and by the Secretary or an Assistant Secretary of the Corporation, certifying the number and class of shares and the designation of the series, if any, owned by him. Certificates representing Corporation shares shall be issued in numerical order, and the Corporation's seal or a facsimile thereof may be affixed to each certificate. The signature of any of the specified officers may be actual or a facsimile. If the person who signed (either manually or in facsimile) a share certificate no longer holds office when the certificate is issued, the certificate is nevertheless valid. Shares or interests in the stock of corporations are personal property, transferable on the books of the Corporation in the manner provided by law.

**6.2. Stock Records.** A record shall be kept of the respective names of persons owning the shares represented by certificates, the number of shares represented by such certificates, respectively, and the respective issue dates thereof, and in the case of cancellation, the respective dates of cancellation. Every certificate surrendered to the Corporation for exchange or transfer shall be canceled and a new certificate or certificates shall not be issued in exchange for any existing certificates until such existing certificate shall have been so canceled, except in cases otherwise provided for in this Article VI.

**6.3. Stock Transfer.** Corporation shares shall be transferred only upon the Corporation's books by the registered holder thereof, either in person or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, or with the Corporation's duly appointed transfer agent, upon payment of all taxes on such transfer, and surrender of properly endorsed certificates for such shares. The Corporation shall be entitled to recognize the exclusive right of a person or entity registered on its books as the owner of shares entitled to receive dividends and to vote as such owner, and the Corporation shall not be bound to recognize any equitable or other claim to, or interest in, such Share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as may otherwise be required by the laws of Alabama. The Corporation's obligation to effect a transfer of shares shall be subject to all provisions of the Articles of Incorporation and these By-Laws, and to any applicable restrictions on transfer imposed or permitted pursuant to such Articles of Incorporation, these By-Laws, or applicable law or agreement.

**6.4. Lost, Destroyed and Mutilated Certificates.** The holder of any shares shall immediately notify the Corporation of any loss, destruction or mutilation of the certificate therefor, and the Board may, in its discretion, and after the expiration of such period of time as it may determine to be advisable, cause a new certificate or certificates for shares of stock to be issued, upon the surrender of the mutilated certificate, or in case of loss or destruction of the certificate, upon proof satisfactory to the Board of such loss or destruction. The Board may, in its sole discretion, require the owner of the lost, destroyed or mutilated certificate, or his legal representatives, to give the Corporation a bond, in such sum and with such surety or sureties as it may direct, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss, destruction or mutilation of any such certificate or the issuance of such new certificate.

**6.5. Record Date.** For the purpose of determining shareholders entitled to notice of a shareholders' meeting, to demand a special meeting, to vote, or to take any other action, the Board of Directors of the Corporation may fix the record date but not to exceed, in any case, seventy (70) days before the meeting or action requiring a determination of shareholders. A determination of shareholders entitled to notice of or to vote at a shareholders' meeting is effective for any adjournment of the meeting unless the Board fixes a new record date, which it must do if the meeting is adjourned to a date more than one hundred twenty (120) days after the date fixed for the original meeting.

**6.6. Regulations.** The Board may make such rules and regulations as it may deem expedient, not inconsistent with these By-Laws, concerning the issue, transfer and registration of certificates for shares of the Corporation. It may appoint, or authorize any principal officer or officers to appoint, one (1) or more transfer agents and one (1) or more registrars, and may require all certificates for shares of the Corporation to bear the signature or signatures of any of them.

## **ARTICLE VII**

### **General Provisions**

**7.1. Declaration of Distributions.** Except as otherwise expressly provided by the Articles of Incorporation, distributions with respect to the Corporation's shares may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Distributions may be paid in cash, property, or in shares of the Corporation of any class or series.

**7.2. Annual Reports to Shareholders.** The Board of Directors shall cause the Corporation to make available to any shareholder, upon written request, not later than one hundred eight (180) days after the close of each of its fiscal years, an audited financial statement which may be consolidated, including a balance sheet as of the end of such fiscal year and a statement of income for such fiscal year, ("Audited Financial Statement"). Such financial statement shall be prepared in accordance with generally accepted accounting principles, or, if the books of the Corporation are not maintained on that basis, may be prepared either on the same basis used by the Corporation for filing its United States income tax returns or as required by appropriate regulatory agencies. The financial statement shall be accompanied by a report of the President, the officer of the Corporation in charge of its financial records or a certified public accountant stating whether, in his opinion, the financial statements of the Corporation present fairly the financial position of the Corporation and the results of its operations in accordance with generally accepted accounting principles and, if not, describing the basis of their preparation and giving his opinion of the fairness of the presentation of the data shown by them, in accordance with accounting procedures generally used in the trade, industry or business conducted by the Corporation.

**7.3. Fiscal Year.** The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

**7.4. Corporation Seal.** The corporate seal shall have inscribed thereon the name of the Corporation, the words "Seal" or "Corporate Seal" and "Alabama", as impressed in the margin hereof. The seal may be used by causing it or a facsimile thereof to be impressed, affixed, or reproduced or otherwise used on document or instrument.

## 7.5. Indemnification

(a) The Corporation shall indemnify all persons who may be indemnified by the Corporation to the full extent required or permitted by law, including but not limited to the indemnification provided in Sections 10A-2-8.50 through 10A-2-8.58 of the Alabama Business Corporation Law, as such Alabama Business Corporation Law or such Sections 10A-2-8.50 through 10A-2-8.58 now or hereafter exist.

(b) In addition to the above, and without restricting the power or duty of the Corporation to provide indemnification, the Corporation shall:

(i) Indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed claim, action, suit or proceeding, whether civil, criminal, administrative or investigative, including appeals and whether formal or informal by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including reasonable attorneys' fees), judgments, fines, penalties and amounts paid in settlement actually and reasonably incurred by him in connection with such claim, action, suit or proceeding if he conducted himself in good faith and he reasonably believed (1) in the case of conduct in his official capacity with the Corporation, that his conduct was in the best interests of the Corporation, (2) in the case of conduct with respect to an employee benefit plan, that his conduct was for a purpose that was in the best interests of the participants and beneficiaries, and (3) in all other cases (except a criminal action or proceeding), that his conduct was at least not opposed to the Corporation's best interests, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any claim, action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, is not, of itself, determinative that the person did not conduct himself in good faith and in a manner in which he reasonably believed (1) in the case of conduct in his official capacity with the Corporation, that his conduct was not in the best interests of the Corporation, (2) in the case of conduct with respect to an employee benefit plan, that his conduct was for a purpose that was not in the best interests of the participants and beneficiaries, and (3) in all other cases (except a criminal action or proceeding), that his conduct was opposed to the best interests of the Corporation and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. The Corporation may not, however, indemnify a person if (1) in connection with any claim, action, suit or proceeding by or in the right of the Corporation, if the person was adjudged liable to the Corporation or (2) in connection with any other claim, action, suit or proceeding charging improper personal benefit to the person, whether or not involving action in his official capacity, if the person was adjudged liable on the basis that a personal benefit was improperly received by him.

(ii) Indemnify any director, officer, employee or agent of the Corporation against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with any action, suit, or proceeding referred to in paragraph (i) of this subsection or in defense of any claim, issue or matter therein, to the extent that he has been successful on the merits or otherwise in defense of any such action, suit or proceedings, or in defense of any claim, issue or matter therein. Any indemnification under paragraph (i) of this subsection, unless ordered by a court, shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in paragraph (i) of this subsection. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such claim, action, suit or proceeding, or (2) if such a quorum is not obtainable, by majority vote of a committee duly designated by the board of directors (in which designated directors who are parties to such action may participate) consisting solely of two or more directors not at the time parties to the action, or (3) by special legal counsel, selected by the board of directors or its committee in the manner prescribed in (1) or (2) or, if a quorum of the board of directors cannot be obtained under (1) and a committee cannot be designated under (2), selected by a majority vote of the full board of directors (in which selected directors who are parties to the action may participate, or (4) by the shareholders, but shares owned by or voted under the control of directors, officers, employees or agents who are at the time parties to the action may not be voted on the determination. (In the case of a shareholder vote, a majority of the shares that are entitled to vote on the transaction by virtue of not being owned by or under the control of such directors constitutes a quorum for the purpose of taking action under this provision).

(iii) Indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed claim, action, suit or proceeding if the court in which such action was brought or another court of competent jurisdiction determines that the person is entitled to mandatory indemnification under Section 10A-2-8.52 of the Alabama Business Corporation Law or that the person is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not he met the applicable standard of conduct in paragraph (i) of this subsection or was adjudged liable to the Corporation.

(c) In addition to the above provisions of this Section, and without restricting the power or duty of the Corporation to provide indemnification thereunder, unless prohibited by law, the Corporation may indemnify any director, officer, employee or agent under such circumstances and to the extent approved by the holders of a majority of the shares of stock of the Corporation; provided, however, that the shares of stock of the person or persons proposed to be indemnified shall not be included for the purpose of determining what constitutes a majority and such shares shall not be voted on the issue. Indemnification may be provided under this subsection (c) notwithstanding the fact that it has been denied, expressly or by implication, under subsections (a) or (b) of this Section.

(d) Expenses (including attorneys' fees) incurred in defending a civil or criminal claim, action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such claim, action, suit or proceeding as authorized in the manner provided in subsections (b) and (c) of this Section upon (1) if authorized pursuant to subsection (b), receipt of a written affirmation by the director, officer, employee or agent of good faith belief that he has met the appropriate standard of conduct provided in subsection (b), (2) receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount if and to the extent that it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in subsections (b) and (c) of this Section, and (3) a determination that the facts then known to those making the determination would not prevent indemnification under these By-Laws.

(e) The indemnification authorized by this Section shall not be deemed exclusive of and shall be in addition to any other right to which those indemnified may be entitled under any statute, rule of law, provision of the Articles of Incorporation, these By-Laws, agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent of the Corporation and shall inure to the benefit of the heirs, executors, administrators, and personal representatives of such a person.

(f) The Corporation may purchase and maintain insurance or furnish similar protection (including but not limited to trust funds, self-insurance reserves, or the like) on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Section or under Sections 10A-2-8.50 through 10A-2-8.58 of the Alabama Business Corporation Law, as such Sections 10A-2-8.50 through 1-A-2-8.58 or such Alabama Business Corporation Law now or may hereafter exist.

(g) For purposes of these By-Laws, the phrase official capacity shall mean (i) with respect to a director, the office of director in the Corporation; and (ii) when used with respect to an individual other than a director, the office in the Corporation held by an officer or the employment or agency relationship undertaken by the employee or agent on behalf of the Corporation. Official capacity does not include service for any other foreign or domestic corporation or any partnership, joint venture, trust, employee benefit plan, or other enterprise.

#### **ARTICLE VIII** **Amendment of By-Laws**

These By-Laws may be altered, amended, added to, or repealed and new By-Laws adopted by the Board of Directors at any regular meeting of the Board of Directors, or at any special meeting of the Board of Directors if notice of such proposed action is contained in the notice of such special meeting. The Board of Directors may not alter, amend, add to, or repeal any By-Law establishing what constitutes a quorum at meetings of the shareholders. These By-Laws also may be altered, amended, added to or repealed and new By-Laws adopted by majority vote of the shareholders at any annual meeting thereof, or at any special meeting if notice of such proposed action shall have been given to each shareholder.

**River Financial Corporation**  
**Amendment to Bylaws**  
**effective December 31, 2015**

Sections 3.1, 3.2, 5.2 and 5.3 of the Bylaws of River Financial Corporation are revised and amended to read in their entirety as follows, Section 5.8 is deleted and new sections 3.14, 5.8.1, 5.8.2, and 5.17 are hereby added as follows:

**3.1 General Powers, Number, Tenure and Qualifications.** All corporate powers shall be exercised by or under authority of, and the business and affairs of the Corporation shall be managed under the direction of, its Board of Directors. Directors shall be natural persons of the age of at least nineteen (19) but need not be residents of the State of Alabama or shareholders of the Corporation. Directors shall be elected at each annual meeting of the shareholders, and shall hold office for one year terms or until their successors are elected and qualified.

**3.2 Vacancies.** Effective as of December 31, 2015, the "Effective Date" of the merger of Keystone Bancshares, Inc. ("Keystone") with the Corporation, the Board of Directors shall consist of seven members, three of which shall be directors of Keystone, selected initially by the Board of Directors of Keystone prior to the Effective Date ("Legacy Keystone Directors") and four of which shall be directors of the Corporation, selected initially by the Board of Directors of the Corporation prior to the Effective Date ("Legacy River Financial Directors"). All vacancies on the Board of Directors created by the cessation of service of a Legacy Keystone Director shall be filled by a nominee proposed by a majority of the remaining Legacy Keystone Directors, and all vacancies on the Board of Directors created by the cessation of service of a Legacy River Financial Director shall be filled by a nominee proposed by a majority of the remaining Legacy River Financial Directors, and all directors so nominated and appointed or elected to the board of directors by proposal of the Legacy Keystone Directors shall be considered "Legacy Keystone Directors" and all directors so nominated and appointed or elected to the board of directors by proposal of the Legacy River Financial Directors shall be considered "Legacy River Financial Directors." Upon the Effective Date, Larry Puckett shall serve as Chairman of the Board of the Resulting Corporation, and Murray Neighbors shall serve as Vice-Chairman of the Board of the Resulting Corporation. The initial Legacy Keystone Directors shall be W. Murray Neighbors, Gerald Ray Smith, Jr. and John A. Freeman. The initial Legacy River Financial Directors shall be Larry Puckett, James M. Stubbs, Jim Ridling and Vernon Taylor. The foregoing provisions of this Section 3.2 shall be effective and binding until December 31, 2019.

**3.14. Approval of Certain Transactions.** Until December 31, 2019, the following transactions shall require a vote of 65 percent of the existing members of the Board of Directors:

- (i) a merger or consolidation of the Corporation with or into any entity;
- (ii) an acquisition of the Corporation by a statutory exchange offer, tender offer, sale of all or substantially all of the assets of the Corporation or other comparable transaction;
- (iii) a change in the Chairman of the Board, Vice Chairman of the Board, Chief Executive Officer, President, Executive Vice President or Chief Financial Officer or a reduction in the compensation or benefits of any of the foregoing;
- (iv) the declaration and payment of cash dividends;
- (v) an increase in the size of the board of directors to more than seven (7) members; and
- (vi) voluntary registration or deregistration at any time of the common stock of the Corporation pursuant to the 1933 Act or the 1934 Act.
- (vii) any amendment to any of the foregoing provisions (i) through (vi).

**5.2. Election.** The Board of Directors, at its annual organizational meeting, may choose a Chairman, Vice Chairman, Chief Executive Officer, President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers as it deems necessary or desirable. If the officers, or any of them, for any reason should not be elected at the Board of Directors' organizational meeting, they may be elected at any regular or special meeting of the Board of Directors.

**5.3. Appointive Officers.** The Board may from time to time appoint or delegate the appointment of such other officers as it may deem necessary, including one or more Assistant Secretaries and one or more Assistant Treasurers. Such officers shall hold office for such period, have such authority and perform such duties, subject to the control of the Board, as are in these By-Laws provided or as the Chairman of the Board, the Chief Executive Officer or the Board may from time to time prescribe. The Chief Executive Officer shall have authority to appoint and remove agents and employees and to prescribe their powers and duties and may authorize any other officer or officers to do so.



**5.8.1 Chief Executive Officer.** The Chief Executive Officer shall be the chief executive officer of the Corporation, and subject to the control of the Board of Directors, shall determine the Corporation's basic policies and have general supervision of its business and affairs. The Chief Executive Officer shall report to the Board of Directors, and shall designate and assign the duties of the officers under his supervision, at the direction or with the approval of the Board of Directors.

The Chief Executive Officer shall have the authority to execute bonds, mortgages and other contracts and instruments requiring a seal, under the seal of the Corporation; and shall have the authority to endorse, when sold, assigned, transferred, or otherwise disposed of, all certificates for shares of stock, bonds, securities or evidences of indebtedness issued by other corporations, associations, trusts, individuals or entities, whether public or private, or by any government or agency thereof, which are owned or held by the Corporation, and to make, execute and deliver all instruments of assignment or transfer of any stocks, bonds, securities, evidences of indebtedness, agreements, or other property owned or held by the Corporation in any capacity. He shall, under the supervision of the Board, be responsible for all investments of the Corporation and shall have full authority to do any and all things delegated to him by the Board of Directors or by any committee of the Board having authority.

**5.8.2 President.** The President shall be responsible for all internal operations of the Corporation. The President shall report to the Board of Directors, and shall be responsible for personnel, and shall designate and assign the duties of the officers under his supervision, at the direction or with the approval of the Board of Directors. In the absence, inability, or disability of the Chief Executive Officer, the President shall perform the duties and exercise the powers of the Chief Executive Officer, and when so acting shall be subject to all restrictions upon the Chief Executive Officer.

In addition to the Chief Executive Officer, the President shall also have the authority to execute bonds, mortgages and other contracts and instruments requiring a seal, under the seal of the Corporation; and shall have the authority to endorse, when sold, assigned, transferred, or otherwise disposed of, all certificates for shares of stock, bonds, securities or evidences of indebtedness issued by other corporations, associations, trusts, individuals or entities, whether public or private, or by any government or agency thereof, which are owned or held by the Corporation, and to make, execute and deliver all instruments of assignment or transfer of any stocks, bonds, securities, evidences of indebtedness, agreements, or other property owned or held by the Corporation in any capacity. He shall, under the supervision of the Board, be responsible for all investments of the Corporation and shall have full authority to do any and all things delegated to him by the Board of Directors or by any committee of the Board having authority.

**5.17. Actions of Chief Executive Officer.** Actions authorized in these bylaws to be performed by the President of the Corporation may also be performed by the Chief Executive Officer unless the Board of Directors provides otherwise.

**River Financial Corporation**  
**Bylaw Amendments**

**RESOLVED**, that Section 2.2 and Article VI of the By-Laws of the Corporation is each deleted in its entirety and the following new section 2.2 and Article VI are substituted in lieu thereof:

**2.2 Annual Meetings.** The annual meeting of shareholders shall be held in the third week of the month of May. At the annual meeting, the shareholders shall elect a Board of Directors and shall transact any other business as may properly come before the meeting.

**ARTICLE VI**  
Capital Stock

**6.1 Certificates for Stock.** Shares of stock of the Corporation may be certificated or uncertificated, as provided under the Alabama Business Corporation Law (“ABCL”). Every holder of stock represented by certificates shall be entitled to have a certificate or certificates certifying the number and class of shares of stock of the Corporation owned by such holder, provided that the Board of Directors may provide for some or all of any class on series of stock to be uncertificated. Certificates, if issued, shall be in such form as the Board shall prescribe, certifying the number of shares of stock of the Corporation owned by shareholder. The certificates representing shares of such stock shall be numbered in the order in which they shall be issued and shall be signed in the name of the Corporation by the person who was at the time of signing the Chief Executive Officer or an executive officer and by the person who was at the time of signing the Secretary or an Assistant Secretary and its seal may be affixed thereto; provided, however, that the signature of such Executive Officer of the Corporation and of such Secretary or Assistant Secretary and the seal of the Corporation may be facsimile. In case any officer or officers of the Corporation who shall have signed, or whose facsimile signature or signatures shall have been used on, any such certificate or certificates shall cease to be such officer or officers, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed such certificate or certificates, or whose facsimile signature or signatures shall have been used thereon, had not ceased to be such officer or officers. A record shall be kept of the respective names of the persons, firms or corporations owning the stock of the Corporation, the number of shares held by such persons, firms or corporations and the respective dates of issuance, and in case of cancellation, the respective dates of cancellation. Every share of stock surrendered to the Corporation for exchange or transfer shall be canceled and neither a new certificate or certificates nor uncertificated shares of stock shall be issued in exchange thereof until such stock shall have been so canceled except in cases provided for in Section 6.4 of this Article VI. Within a reasonable time after the issuance of uncertificated shares, to the extent required by the ABCL the Corporation shall furnish to the registered owner of the shares a written statement containing the information required by the ABCL to be set forth in certificates representing shares of such stock.

**6.2 Transfers of Stock.** Transfers of shares of the stock of the Corporation shall be made only on the books of the Corporation by the registered holder thereof, or by his or her attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, or with a transfer clerk or a transfer agent appointed as in Section 6.3 of this Article VI provided, and upon payment of all taxes thereon and, in the case of certificated shares, surrender of

the certificate or certificates for such shares properly endorsed or, in the case of uncertificated shares of stock, compliance with appropriate procedures for transferring shares in uncertificated form. The person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation. Within a reasonable time after the issuance of uncertificated shares, to the extent required by the ABCL the Corporation shall furnish to the registered owner of the shares a written statement containing the information required by the ABCL, to be set forth in certificates representing shares of such stock.

**6.3 Regulations.** The Board may make such rules and regulations as it may deem expedient, not inconsistent with these By-laws, concerning the issue, transfer and registration of shares of stock of the Corporation. The Board may appoint or authorize any officer or officers to appoint one or more transfer clerks, any of whom may be employees of the Corporation, or one or more transfer agents and one or more registrars, and may require all certificates for stock to bear the signature or signatures of any of them; provided, however, that the signature of any transfer clerk, transfer agent, or registrar may be facsimile. In case any transfer clerk, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such transfer clerk, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such transfer clerk, transfer agent, or registrar at the date of issue.

**6.4 Lost, Destroyed and Mutilated Certificates.** The owner of any certificated shares of stock of the Corporation shall immediately notify the Corporation of any loss, destruction or mutilation of the certificate therefor, and the Corporation may issue a new certificate of stock or uncertificated shares of stock in the place of any certificate theretofore issued by it, alleged to have been lost or destroyed, and the Board may, in its discretion, require the owner of the lost or destroyed certificate, or his or her legal representatives, to give the Corporation a bond in such sum, limited or unlimited, and in such form and with such surety or sureties, as the Board shall in its uncontrolled discretion determine, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss or destruction of any such certificate, or the issuance of such new certificate or uncertificated shares of stock.”

**6.5 Record Date.** For the purpose of determining shareholders entitled to notice of a shareholders’ meeting, to demand a special meeting, to vote, or to take any other action, the Board of Directors of the Corporation may fix the record date but not to exceed, in any case, seventy (70) days before the meeting or action requiring a determination of shareholders. A determination of shareholders entitled to notice of or to vote at a shareholders’ meeting is effective for any adjournment of the meeting unless the Board fixes a new record date, which it must do if the meeting is adjourned to a date more than one hundred twenty (120) days after the date fixed for the original meeting.

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent 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

November 5, 2019

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

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent 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

November 5, 2019

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

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

**CERTIFICATES PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

**(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of River Financial Corporation, an Alabama corporation (the "Company"), on Form 10-Q for the period ending September 30, 2019 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: November 5, 2019

RIVER FINANCIAL CORPORATION

/s/ Kenneth H. Givens

Kenneth H. Givens

*Chief Financial Officer*

(principal financial officer and accounting officer)

Date: November 5, 2019

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.