Section 1: 10-Q (10-Q)

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the quarterly period ended March 31, 2019

or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the transition period from _________

001-38627
(Commission File Number)

RIVERVIEW FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Pennsylvania	**38-3917371**
(State of incorporation)	**(IRS Employer Identification Number)**
3901 North Front Street, Harrisburg, PA	**17110**
(Address of principal executive offices)	**(Zip code)**

(717) 957-2196
(Registrant's telephone number, including area code)

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 and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months or for such shorter period that the registrant was required to submit and post such files. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company as defined 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. ☐

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	**RIVE**	**Nasdaq Global Market**

Indicate the number of shares outstanding of the registrant's common stock, as of the latest practicable date: 9,154,982 at April 29, 2019.

Table of Contents

RIVERVIEW FINANCIAL CORPORATION
FORM 10-Q

For the Quarter Ended March 31, 2019

Contents | **Page No.**

PART I.	FINANCIAL INFORMATION:	
Item 1.	Financial Statements (Unaudited)	
	Consolidated Balance Sheets at March 31, 2019 and December 31, 2018	3
	Consolidated Statements of Income and Comprehensive Income (Loss) for the Three Months Ended March 31, 2019 and 2018	4
	Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2019 and 2018	5
	Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2019 and 2018	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	36
Item 4.	Controls and Procedures	36
PART II	OTHER INFORMATION:	
Item 1.	Legal Proceedings	36
Item 1A.	Risk Factors	36
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3.	Defaults upon Senior Securities	36
Item 4.	Mine Safety Disclosures	36
Item 5.	Other Information	36
Item 6.	Exhibits	37
	Signatures	38

Riverview Financial Corporation
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(Dollars in thousands, except per share data)

	March 31, 2019	December 31, 2018
Assets:		
Cash and due from banks	$ 12,278	$ 16,708
Interest-bearing deposits in other banks	55,823	37,108
Investment securities available-for-sale	100,684	104,677
Loans held for sale	695	637
Loans, net	878,070	893,184
Less: allowance for loan losses	6,486	6,348
Net loans	871,584	886,836
Premises and equipment, net	18,355	18,208
Accrued interest receivable	3,018	3,010
Goodwill	24,754	24,754
Intangible assets	3,315	3,509
Other assets	48,206	42,156
Total assets	$1,138,712	$ 1,137,603
Liabilities:		
Deposits:		
Noninterest-bearing	$ 164,880	$ 162,574
Interest-bearing	836,149	842,019
Total deposits	1,001,029	1,004,593
Short-term borrowings		
Long-term debt	6,912	6,892
Accrued interest payable	475	484
Other liabilities	16,806	11,724
Total liabilities	1,025,222	1,023,693
Stockholders' equity:		
Common stock: no par value, authorized 20,000,000 shares; March 31, 2019, issued and outstanding 9,154,599 shares; December 31, 2018, issued and outstanding 9,121,555 shares	101,500	101,134
Capital surplus	307	332
Retained earnings	13,461	15,063
Accumulated other comprehensive loss	(1,778)	(2,619)
Total stockholders' equity	113,490	113,910
Total liabilities and stockholders' equity	$1,138,712	$ 1,137,603

See notes to consolidated financial statements.

Table of Contents

Riverview Financial Corporation
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(Dollars in thousands, except per share data)

For the three months ended March 31,	2019	2018
Interest income:		
Interest and fees on loans:		
Taxable	$ 10,688	$ 12,241
Tax-exempt	230	234
Interest and dividends on investment securities available-for-sale:		
Taxable	740	523
Tax-exempt	69	82
Dividends		
Interest on interest-bearing deposits in other banks	231	79
Interest on federal funds sold		10
Total interest income	11,958	13,169
Interest expense:		
Interest on deposits	2,073	1,554
Interest on short-term borrowings		30
Interest on long-term debt	134	176
Total interest expense	2,207	1,760
Net interest income	9,751	11,409
Provision for loan losses	583	390
Net interest income after provision for loan losses	9,168	11,019
Noninterest income:		
Service charges, fees and commissions	1,053	1,228
Commission and fees on fiduciary activities	260	210
Wealth management income	247	154
Mortgage banking income	106	170
Bank owned life insurance investment income	187	191
Net loss on sale of investment securities available-for-sale	(42)	
Total noninterest income	1,811	1,953
Noninterest expense:		
Salaries and employee benefits expense	7,510	5,322
Net occupancy and equipment expense	1,089	1,122
Amortization of intangible assets	194	221
Net cost (benefit) of operation of other real estate owned	127	(1)
Other expenses	3,044	2,872
Total noninterest expense	11,964	9,536
Income (loss) before income taxes	(985)	3,436
Income tax expense (benefit)	(298)	625
Net income (loss)	(687)	2,811
Other comprehensive income (loss):		
Unrealized gain (loss) on investment securities available-for-sale	$ 1,023	$ (1,075)
Reclassification adjustment for net loss on sale of investment securities available-for-sale included in net income	42	
Income tax expense (benefit) related to other comprehensive income	224	(225)
Other comprehensive income (loss), net of income taxes	841	(850)
Comprehensive income (loss)	$ 154	$ 1,961
Per share data:		
Net income:		
Basic	$ (0.08)	$ 0.31
Diluted	$ (0.08)	$ 0.31
Average common shares outstanding:		
Basic	9,143,316	9,079,043
Diluted	9,143,316	9,137,706
Dividends declared	$ 0.10	$

See notes to consolidated financial statements.

[Table of Contents](#)

Riverview Financial Corporation
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
(Dollars in thousands, except per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2019	$ 101,134	$ 332	$ 15,063	$ (2,619)	$113,910
Net income (loss)			(687)		(687)
Other comprehensive income, net of income taxes				841	841
Compensation cost of option grants					
Issuance under ESPP, 401k and Dividend Reinvestment plans: 15,223 shares	175				175
Exercise of stock options: 17,821 shares	191	(25)			166
Dividends declared, $0.10 per share			(915)		(915)
Balance, March 31, 2019	$ 101,500	$ 307	$ 13,461	$ (1,778)	$113,490
Balance, January 1, 2018	$ 100,476	$ 423	$ 6,936	$ (1,579)	$106,256
Net income			2,811		2,811
Other comprehensive income (loss), net of income taxes				(850)	(850)
Compensation cost of option grants		(1)			(1)
Issuance under ESPP, 401k and Dividend Reinvestment plans: 10,153 shares	135				135
Exercise of stock options: 4,761 shares	49				49
Balance, March 31, 2018	$ 100,660	$ 422	$ 9,747	$ (2,429)	$108,400

See notes to consolidated financial statements.

Table of Contents

Riverview Financial Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Dollars in thousands, except per share data)

For the Three Months Ended March 31,	2019	2018
Cash flows from operating activities:		
Net income (loss)	$ (687)	$ 2,811
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization of premises and equipment	300	286
Provision for loan losses	583	390
Stock based compensation		(1)
Net amortization of investment securities available-for-sale	216	207
Net cost (benefit) of operation of other real estate owned	127	(1)
Net loss on sale of investment securities available-for-sale	42	
Amortization of purchase adjustment on loans	(439)	(1,873)
Amortization of intangible assets	194	221
Deferred income taxes	(61)	687
Proceeds from sale of loans originated for sale	4,443	5,827
Net gain on sale of loans originated for sale	(106)	(170)
Loans originated for sale	(4,395)	(6,013)
Bank owned life insurance investment income	(187)	(191)
Net change in:		
Accrued interest receivable	(8)	372
Other assets	(2,613)	(691)
Accrued interest payable	(9)	(2)
Other liabilities	1,363	(635)
Net cash provided by (used in) operating activities	(1,237)	1,224
Cash flows from investing activities:		
Investment securities available-for-sale:		
Purchases	(7,647)	
Proceeds from repayments	3,707	3,146
Proceeds from sales	8,740	
Proceeds from the sale of other real estate owned	133	145
Net decrease in restricted equity securities	46	208
Net decrease in loans	15,108	23,473
Purchases of premises and equipment	(447)	(369)
Net cash provided by investing activities	19,640	26,603
Cash flows from financing activities:		
Net increase (decrease) in deposits	(3,564)	12,125
Net decrease in short-term borrowings		(6,000)
Repayment of long-term debt		(73)
Proceeds from long-term debt	20	
Issuance under ESPP, 401k and DRP plans	175	135
Proceeds from exercise of stock options	166	49
Cash dividends paid	(915)	
Net cash provided by (used in) financing activities	(4,118)	6,236
Net increase in cash and cash equivalents	14,285	34,063
Cash and cash equivalents—beginning	53,816	25,786
Cash and cash equivalents—ending	$68,101	$59,849
Supplemental disclosures:		
Cash paid during the period for:		
Interest	$ 2,216	$ 1,762
Income taxes		
Noncash items from operating activities:		
Operating lease right-of-use assets and liabilities	$ 3,719	

See notes to consolidated financial statements.

Riverview Financial Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

1. Summary of significant accounting policies:

Nature of Operations

Riverview Financial Corporation, (the “Company” or “Riverview”), a bank holding company incorporated under the laws of Pennsylvania, provides a full range of financial services through its wholly-owned subsidiary, Riverview Bank (the “Bank”).

Riverview Bank, with 28 full service offices and four limited purpose offices, is a full service commercial bank offering a wide range of traditional banking services and financial advisory, insurance and investment services to individuals, municipalities and small-to-medium sized businesses in the Pennsylvania market areas of Berks, Blaire, Centre, Clearfield, Dauphin, Huntingdon, Lebanon, Lycoming, Northumberland, Perry, Schuylkill and Somerset Counties in Pennsylvania.

Basis of presentation:

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP’) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current year’s presentation. These reclassifications did not have any effect on the operating results or financial position of the Company. The operating results and financial position of the Company for the three months ended as of March 31, 2019, are not necessarily indicative of the results of operations and financial position that may be expected in the future. The condensed consolidated balance sheet at December 31, 2018 has been derived from the audited financial statements at that date but does not include all of the information and disclosures required by GAAP for complete financial statements. Accordingly, these unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s 2018 Annual Report on Form 10-K, filed on March 14, 2019.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided. Actual results could differ from those estimates.

Accounting Standards Adopted in 2019

In February 2016, the FASB issued an update ASU 2016-02, “Leases”, which requires lessees to record most leases on their balance sheet and recognize leasing expenses in the income statement. Operating leases, except for short-term leases that are subject to an accounting policy election, will be recorded on the balance sheet for lessees by establishing a lease liability and corresponding right-of-use asset. 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, the modified retrospective approach was applied on January 1, 2019 (as opposed to January 1, 2017). 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 guidance in this ASU became effective January 1, 2019 at which time the Company recorded on the Consolidated Balance Sheet a right-of-use asset and lease liability of $3,719. For further detail, see Note 7 – Leases.

In March 2017, the FASB issued ASU No. 2017-08, “Receivables—Nonrefundable Fees and Other Costs (Topic 310), Premium Amortization on Purchased Callable Debt Securities”. These 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 guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. 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 adoption of ASU No. 2017-08 on January 1, 2019, did not have a material effect on our consolidated financial statements.

Table of Contents

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities”. The amendments in the Update better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The adoption of ASU No. 2017-12 on January 1. 2019, did not have a material effect on our consolidated financial statements.

Recent Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. ASU 2016-13 requires an entity to utilize a new impairment model known as the current expected credit loss (“CECL”) model to estimate its lifetime “expected credit loss” and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in earlier recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. In November 2018, the FASB issued ASU No. 2018-19—Codification Improvements to Topic 326, Financial Instruments—Credit Losses. The amendments clarify that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company currently expects as of January 1, 2020 to recognize a one-time cumulative effect adjustment to increase the ALLL with an offsetting reduction to the retained earnings component of equity. In December 2018, the federal bank regulatory agencies approved a final rule that modifies their regulatory capital rules and provides institutions the option to phase in over a three-year period any day-one regulatory capital effects of the new accounting standard. The Company has formed an internal management committee and engaged a third party vendor to assist with the transition to the guidance set forth in this update. The committee is currently evaluating the impact of this update on the Company’s Consolidated Financial Statements, but the ALLL is expected to increase upon adoption since the allowance will be required to cover the full expected life of the portfolio. The extent of this increase is still being evaluated and will depend on economic conditions and the composition of the loan and lease portfolio at the time of adoption. Management is currently evaluating the preliminary modeling results, including a qualitative framework to account for the drivers of credit losses that are not captured by the quantitative model.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”. The update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This new accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2019. The Company does not expect the adoption of the new accounting guidance to have a material effect on the statement of cash flows.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”. The ASU simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. The Company should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value. The impairment charge is limited to the amount of goodwill allocated to that reporting unit. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. The guidance is not expected to have a significant impact on the Company’s financial positions, results of operations or disclosures.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”. The amendments in this Update improve the effectiveness of fair value measurement disclosures by modifying the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, including the consideration of costs and benefits. The ASU is effective for all entities in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. In addition, an entity may early adopt any of the removed or modified disclosures immediately and delay adoption of the new disclosures until the effective date. The guidance is not expected to have a significant impact on the Company’s financial positions, results of operations or disclosures.

In August 2018, the FASB issued ASU No. 2018-14, “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)—Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans”. Subtopic 715-20 addresses the disclosure of other accounting and reporting requirements related to single-employer defined benefit pension or other

postretirement benefit plans. The amendments in this Update remove disclosures that no longer are considered cost-beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the Board's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements. The amendments in this Update apply to all employers that sponsor defined benefit pension or other postretirement plans. The ASU is effective for all entities in fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The guidance is not expected to have a significant impact on the Company's financial positions, results of operations or disclosures.

In August 2018, the FASB issued ASU No. 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract." This guidance aligns the accounting for implementation costs related to a hosting arrangement that is a service contract with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Common examples of hosting arrangements include software as a service, platform or infrastructure as a service and other similar types of hosting arrangements. While capitalized costs related to internal-use software is generally considered an intangible asset, costs incurred to implement a cloud computing arrangement that is a service contract would typically be characterized in the company's financial statements in the same manner as other service costs (e.g., prepaid expense). The new guidance provides that an entity would be required to amortize capitalized implementation costs over the term of the hosting arrangement on a straight-line basis unless another systematic and rational basis is more representative of the pattern in which the entity expects to benefit from access to the hosted software. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with earlier adoption permitted in any annual or interim period for which financial statements have not yet been issued or made available for issuance. The guidance is not expected to have a significant impact on the Company's financial positions, results of operations or disclosures.

2. Other comprehensive income (loss):

The components of other comprehensive income (loss) and their related tax effects are reported in the Consolidated Statements of Income and Comprehensive Income (Loss). The accumulated other comprehensive income (loss) included in the Consolidated Balance Sheets relates to net unrealized gains and losses on investment securities available-for-sale and benefit plan adjustments.

The components of accumulated other comprehensive income (loss) included in stockholders' equity at March 31, 2019 and December 31, 2018 is as follows:

	March 31, 2019	December 31, 2018
Net unrealized loss on investment securities available-for-sale	$ (1,118)	$ (2,183)
Income tax benefit	(234)	(458)
Net of income taxes	(884)	(1,725)
Benefit plan adjustments	(1,132)	(1,132)
Income tax benefit	(238)	(238)
Net of income taxes	(894)	(894)
Accumulated other comprehensive loss	$ (1,778)	$ (2,619)

Other comprehensive income (loss) and related tax effects for the three months ended March 31, 2019 and 2018 is as follows:

Three months ended March 31,	2019	2018
Unrealized gain (loss) on investment securities available-for-sale	$1,023	$(1,075)
Net loss (gain) on the sale of investment securities available-for-sale (1)	42	
Other comprehensive gain (loss) before taxes	1,065	(1,075)
Income tax expense (benefit)	224	(225)
Other comprehensive gain (loss)	$ 841	$ (850)

(1) Represents amounts reclassified out of accumulated other comprehensive income and included in net loss (gain) on sale of investment securities on the consolidated statements of income and comprehensive income.

Table of Contents

3. Earnings per share:

Basic earnings per share is computed by dividing net income (loss) divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. The following table provides a reconciliation between the computation of basic earnings per share and diluted earnings per share for the three months ended March 31, 2019 and 2018:

Three months ended March 31,	2019	2018
Numerator:		
Net income (loss)	$ (687)	$ 2,811
Denominator:		
Basic	9,143,316	9,079,043
Dilutive options		58,663
Diluted	9,143,316	9,137,706
Earnings per share:		
Basic	$ (0.08)	$ 0.31
Diluted	$ (0.08)	$ 0.31

Because the Company had a net loss, there were no outstanding stock options for the three months ended March 31, 2019 that were included in the diluted earnings per share calculation because of their antidilutive effect. Had the Company not recognized a net loss for the three months ended March 31, 2019, there would have been 43,350 stock options excluded from the dilutive earnings per share calculation. For the three months ended March 31, 2018, there were no outstanding stock options that were excluded from the dilutive earnings per share calculation

4. Investment securities:

The amortized cost and fair value of investment securities available-for-sale aggregated by investment category at March 31, 2019 and December 31, 2018 are summarized as follows:

March 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipals:				
Taxable	$ 30,811	$ 129	$ 497	$ 30,443
Tax-exempt	7,639	34	5	7,668
Mortgage-backed securities:				
U.S. Government agencies	27,208	101	27	27,282
U.S. Government-sponsored enterprises	26,632	12	214	26,430
Corporate debt obligations	9,512		651	8,861
Total	$ 101,802	$ 276	$ 1,394	$100,684

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipals:				
Taxable	$ 34,025	$ 145	$ 892	$ 33,278
Tax-exempt	12,970	2	196	12,776
Mortgage-backed securities:				
U.S. Government agencies	23,715	61	106	23,670
U.S. Government-sponsored enterprises	26,635	11	451	26,195
Corporate debt obligations	9,515		757	8,758
Total	$ 106,860	$ 219	$ 2,402	$104,677

The maturity distribution of the fair value, which is the net carrying amount, of the debt securities classified as available-for-sale at March 31, 2019, is summarized as follows:

March 31, 2019	Fair Value
Within one year	$ 2,386
After one but within five years	757
After five but within ten years	11,164
After ten years	32,665
	46,972
Mortgage-backed securities	53,712
Total	$100,684

Securities with a fair value of $68,184 and $71,797 at March 31, 2019 and December 31, 2018, respectively, were pledged to secure public deposits as required or permitted by law.

Securities and short-term investment activities are conducted with a diverse group of government entities, corporations and state and local municipalities. The counterparty's creditworthiness and type of collateral is evaluated on a case-by-case basis. At March 31, 2019 and December 31, 2018, there were no significant concentrations of credit risk from any one issuer, with the exception of U.S. Government agencies and sponsored enterprises that exceeded 10.0 percent of stockholders' equity.

The fair value and gross unrealized losses of investment securities with unrealized losses for which an other-than-temporary impairment ("OTTI") has not been recognized at March 31, 2019 and December 31, 2018, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, are summarized as follows:

	Less Than 12 Months		12 Months or More		Total	
March 31, 2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State and municipals:						
Taxable	$ 2,210	$ 15	$19,456	$ 482	$21,666	$ 497
Tax-exempt			3,697	5	3,697	5
Mortgage-backed securities:						
U.S. Government agencies	478	1	1,133	26	1,611	27
U.S. Government-sponsored enterprises	11,284	35	6,954	179	18,238	214
Corporate debt obligation			8,861	651	8,861	651
Total	$ 13,972	$ 51	$40,101	$ 1,343	$54,073	$ 1,394

	Less Than 12 Months		12 Months or More		Total	
December 31, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State and municipals:						
Taxable	$ 2,300	$ 4	$22,943	$ 888	$25,243	$ 892
Tax-exempt	1,950	32	9,556	164	11,506	196
Mortgage-backed securities:						
U.S. Government agencies	7,862	66	1,216	40	9,078	106
U.S. Government-sponsored enterprises	18,110	163	7,133	288	25,243	451
Corporate debt obligation			8,758	757	8,758	757
Total	$ 30,222	$ 265	$49,606	$ 2,137	$79,828	$ 2,402

The Company had 56 investment securities, consisting of 26 taxable state and municipal obligations, six tax-exempt state and municipal obligations, 20 mortgage-backed securities, and four corporate debt obligations that were in unrealized loss positions at March 31, 2019. Of these securities, 24 taxable state and municipal obligation, six tax-exempt state and municipal obligations, 13 mortgage-backed securities and four corporate debt obligations were in a continuous unrealized loss position for twelve months or more. Management does not consider the unrealized losses on the debt securities, as a result of changes in interest rates, to be OTTI based on historical evidence that indicates the cost of these securities is recoverable within a reasonable period of time in relation to normal cyclical changes in the market rates of interest. Moreover, because there has been no material change in the credit quality of the issuers or other events or circumstances that may cause a significant adverse impact on the fair value of these securities, and

management does not intend to sell these securities and it is unlikely that the Company will be required to sell these securities before recovery of their amortized cost basis, which may be maturity, the Company does not consider the unrealized losses to be OTTI at March 31, 2019. There was no OTTI recognized for the three months ended March 31, 2019 and 2018.

The Company had 92 investment securities, consisting of 39 taxable state and municipal obligations, 22 tax-exempt municipal obligations, four corporate obligations and 27 mortgage-backed securities that were in unrealized loss positions at December 31, 2018. Of these securities, 35 taxable state and municipal obligations, 19 tax-exempt municipal obligations, four corporate obligations and 13 mortgage-backed securities were in a continuous unrealized loss position for twelve months or more.

5. Loans, net and allowance for loan losses:

The major classifications of loans outstanding, net of deferred loan origination fees and costs at March 31, 2019 and December 31, 2018 are summarized as follows. Net deferred loan costs were $1,018 and $1,026 at March 31, 2019 and December 31, 2018.

	March 31, 2019	December 31, 2018
Commercial	$ 117,324	$ 122,919
Real estate:		
Construction	43,291	39,556
Commercial	491,650	497,597
Residential	214,501	221,115
Consumer	11,304	11,997
Total	$ 878,070	$ 893,184

The changes in the allowance for loan losses account by major classification of loan for the three months ended March 31, 2019 and 2018 are summarized as follows:

		Real Estate					
March 31, 2019	Commercial	Construction	Commercial	Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning Balance January 1, 2019	$ 1,162	$ 404	$ 3,298	$ 1,286	$ 50	$ 148	$6,348
Charge-offs	(376)				(144)		(520)
Recoveries	5		1	1	68		75
Provisions	232	(123)	160	279	183	(148)	583
Ending balance	$ 1,023	$ 281	$ 3,459	$ 1,566	$ 157	$	$6,486

		Real Estate					
March 31, 2018	Commercial	Construction	Commercial	Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning Balance January 1, 2018	$ 1,206	$ 379	$ 2,963	$ 1,340	$ 37	$ 381	$6,306
Charge-offs	(77)			(50)	(99)		(226)
Recoveries	3		2	1	39		45
Provisions	(316)	5	493	(112)	55	265	390
Ending balance	$ 816	$ 384	$ 3,458	$ 1,179	$ 32	$ 646	$6,515

Table of Contents

The allocation of the allowance for loan losses and the related loans by major classifications of loans at March 31, 2019 and December 31, 2018 is summarized as follows:

			Real Estate				
March 31, 2019	**Commercial**	**Construction**	**Commercial**	**Residential**	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses:							
Ending balance	$ 1,023	$ 281	$ 3,459	$ 1,566	$ 157	$	$ 6,486
Ending balance: individually evaluated for impairment	77		91	55			223
Ending balance: collectively evaluated for impairment	946	281	3,368	1,511	157		6,263
Ending balance: purchased credit impaired loans	$	$	$	$	$	$	$
Loans receivable:							
Ending balance	$ 117,324	$ 43,291	$ 491,650	$ 214,501	$ 11,304	$	$878,070
Ending balance: individually evaluated for impairment	946	85	1,475	2,147			4,653
Ending balance: collectively evaluated for impairment	116,294	43,206	487,022	212,104	11,304		869,930
Ending balance: purchased credit impaired loans	$ 84	$	$ 3,153	$ 250	$	$	$ 3,487

			Real Estate				
December 31, 2018	**Commercial**	**Construction**	**Commercial**	**Residential**	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses:							
Ending balance	$ 1,162	$ 404	$ 3,298	$ 1,286	$ 50	$ 148	$ 6,348
Ending balance: individually evaluated for impairment	382		78	28			488
Ending balance: collectively evaluated for impairment	780	404	3,220	1,258	50	148	5,680
Ending balance: purchased credit impaired loans	$	$	$	$	$	$	$
Loans receivable:							
Ending balance	$ 122,919	$ 39,556	$ 497,597	$ 221,115	$ 11,997	$	$893,184
Ending balance: individually evaluated for impairment	1,249		1,643	2,146			5,038
Ending balance: collectively evaluated for impairment	121,521	39,556	492,779	218,468	11,997		884,321
Ending balance: purchased credit impaired loans	$ 149	$	$ 3,175	$ 501	$	$	$ 3,825

The Company segments loans into 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. Loans are individually analyzed for credit risk by classifying them within the Company's internal risk rating system. The Company's risk rating classifications are defined as follows:

- Pass—A loan to borrowers with acceptable credit quality and risk that is not adversely classified as Substandard, Doubtful, Loss or designated as Special Mention.
- Special Mention—A loan that has potential weaknesses that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special Mention loans are not adversely classified since they do not expose the Company to sufficient risk to warrant adverse classification.
- Substandard—A loan that is inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- Doubtful—A loan classified as Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- Loss—A loan classified as Loss is considered uncollectible and of such little value that its continuance as a bankable loan is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may occur in the future.

The following tables present the major classification of loans summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system at March 31, 2019 and December 31, 2018:

March 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$104,705	$ 9,043	$ 3,576		$117,324
Real estate:					
Construction	43,043	163	85		43,291
Commercial	458,865	19,076	13,709		491,650
Residential	210,296	2,084	2,121		214,501
Consumer	11,304				11,304
Total	$828,213	$ 30,366	$ 19,491		$878,070

December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$109,609	$ 9,123	$ 4,187		$122,919
Real estate:					
Construction	39,265		291		39,556
Commercial	471,364	13,106	13,127		497,597
Residential	216,218	2,126	2,771		221,115
Consumer	11,997				11,997
Total	$848,453	$ 24,355	$ 20,376		$893,184

Table of Contents

The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of March 31, 2019 and December 31, 2018. Purchase credit impaired ("PCI") loans are excluded from the aging and nonaccrual loan schedules.

March 31, 2019	Accrual Loans						
	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
Commercial	$ 56	$	$	$ 56	$116,343	$ 841	$ 117,240
Real estate:							
Construction	250			250	42,957	84	43,291
Commercial	1,244	4	81	1,329	486,471	697	488,497
Residential	1,668	249	20	1,937	211,293	1,021	214,251
Consumer	65	27	21	113	11,191		11,304
Total	$ 3,283	$ 280	$ 122	$ 3,685	$868,255	$ 2,643	$ 874,583
Purchased credit impaired loans							3,487
Total Loans							$ 878,070

December 31, 2018	Accrual Loans						
	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
Commercial	$ 69	$ 128	$ 82	$ 279	$121,350	$ 1,141	$ 122,770
Real estate:							
Construction	11	655	247	913	38,643		39,556
Commercial	467	538	170	1,175	492,545	702	494,422
Residential	4,537	1,322	290	6,149	213,579	886	220,614
Consumer	124	57	50	231	11,766		11,997
Total	$ 5,208	$ 2,700	$ 839	$ 8,747	$877,883	$ 2,729	$ 889,359
Purchased credit impaired loans							3,825
Total Loans							$ 893,184

The following tables summarize information concerning impaired loans as of and for the three months ended March 31, 2019 and 2018, and as of and for the year ended, December 31, 2018 by major loan classification:

				This Quarter	
March 31, 2019	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance:					
Commercial	$ 189	$ 189		$ 169	$ 23
Real estate:					
Construction	85	85		43	
Commercial	4,257	4,257		4,271	100
Residential	2,217	2,217		2,342	91
Consumer					
Total	6,748	6,748		6,825	214
With an allowance recorded:					
Commercial	841	841	$ 77	1,045	
Real estate:					
Construction					
Commercial	371	371	91	453	4
Residential	180	318	55	181	1
Consumer					
Total	1,392	1,530	223	1,679	5
Commercial	1,030	1,030	77	1,214	23
Real estate:					
Construction	85	85		43	
Commercial	4,628	4,628	91	4,724	104
Residential	2,397	2,535	55	2,523	92
Consumer					
Total	$ 8,140	$ 8,278	$ 223	$ 8,504	$ 219

December 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	For the Year Ended Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial	$ 149	$ 149		$ 459	$ 564
Real estate:					
Construction					
Commercial	4,284	4,284		6,382	2,846
Residential	2,466	2,466		2,875	460
Consumer					
Total	6,899	6,899		9,716	3,870
With an allowance recorded:					
Commercial	1,249	1,249	$ 382	1,117	7
Real estate:					
Construction					
Commercial	534	534	78	676	17
Residential	181	319	28	184	3
Consumer					
Total	1,964	2,102	488	1,977	27
Commercial	1,398	1,398	382	1,576	571
Real estate:					
Construction					
Commercial	4,818	4,818	78	7,058	2,863
Residential	2,647	2,785	28	3,059	463
Consumer					
Total	$ 8,863	$ 9,001	$ 488	$ 11,693	$ 3,897

March 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	This Quarter Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial	$ 1,033	$ 1,033		$ 1,119	$ 353
Real estate:					
Construction					
Commercial	8,084	8,084		8,736	1,035
Residential	3,152	3,170		3,252	79
Consumer					
Total	12,269	12,287		13,107	1,467
With an allowance recorded:					
Commercial	1,105	1,105	$ 69	442	2
Real estate:					
Construction					
Commercial	534	534	78	535	6
Residential	186	324	47	187	2
Consumer					
Total	1,825	1,963	194	1,164	10
Commercial	2,138	2,138	69	1,561	355
Real estate:					
Construction					
Commercial	8,618	8,618	78	9,271	1,041
Residential	3,338	3,494	47	3,439	81
Consumer					
Total	$ 14,094	$ 14,250	$ 194	$ 14,271	$ 1,477

For the three months ended March 31, interest income, related to impaired loans, would have been $60 in 2019 and $47 in 2018 had the loans been current and the terms of the loans not been modified.

Troubled debt restructured loans are loans with original terms, interest rate, or both, that have been modified as a result of a deterioration in the borrower's financial condition and a concession has been granted that the Company would not otherwise consider. Unless on nonaccrual, interest income on these loans is recognized when earned, using the interest method. The Company offers a variety of modifications to borrowers that would be considered concessions. The modification categories offered generally fall within the following categories:

- Rate Modification—A modification in which the interest rate is changed to a below market rate.
- Term Modification—A modification in which the maturity date, timing of payments or frequency of payments is changed.
- Interest Only Modification—A modification in which the loan is converted to interest only payments for a period of time.
- Payment Modification—A modification in which the dollar amount of the payment is changed, other than an interest only modification described above.
- Combination Modification—Any other type of modification, including the use of multiple categories above.

Included in the commercial loan and commercial and residential real estate categories are troubled debt restructurings that are classified as impaired. Troubled debt restructurings totaled $2,765 at March 31, 2019, $2,925 at December 31, 2018 and $5,429 at March 31, 2018.

There was one loan modified as troubled debt restructuring for the three months ended March 31, 2019. There were no loans modified as troubled debt restructuring for the three months ended March 31, 2018.

During the three months ended March 31, 2019 there was one default on a residential loan restructured. In 2018, there were no defaults on loans restructured.

Purchased loans are initially recorded at their acquisition date fair values. The carryover of the allowance for loan losses is prohibited as any credit losses in the loans are included in the determination of the fair value of the loans at the acquisition date. Fair values for purchased loans are based on a cash flow methodology that involves assumptions and judgments as to credit risk, default rates, loss severity, collateral values, discount rates, payment speeds, and prepayment risk.

As part of its acquisition due diligence process, the Bank reviews the acquired institution's loan grading system and the associated risk rating for loans. In performing this review, the Bank considers cash flows, debt service coverage, delinquency status, accrual status, and collateral for the loan. This process allows the Bank to clearly identify the population of acquired loans that had evidence of deterioration in credit quality since origination and for which it was probable, at acquisition, that the Bank would be unable to collect all contractually required payments. All such loans identified by the Bank are considered to be within the scope of ASC 310-30, Loan and Debt Securities Acquired with Deteriorated Credit Quality and are identified as "Purchased Credit Impaired Loans".

As a result of the merger with CBT, effective October 1, 2017, the Bank identified 37 PCI loans. As part of the merger with Citizens, effective December 31, 2015, the Bank identified 10 PCI loans. As a result of the consolidation with Union effective November 1, 2013, the Bank identified 14 PCI loans. For all PCI loans, the excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized into interest income over the remaining life of the loan. 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 discount. The non-accretable discount represents estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows require the Bank to evaluate the need for an allowance for loan losses on these loans. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the non-accretable discount which the Bank then reclassifies as an accretable discount that is recognized into interest income over the remaining life of the loan. The Bank's evaluation of the amount of future cash flows that it expects to collect is based on a cash flow methodology that involves assumptions and judgments as to credit risk, collateral values, discount rates, payment speeds, and prepayment risk. Charge-offs of the principal amount on purchased impaired loans are first applied to the non-accretable discount.

For purchased loans that are not deemed impaired at acquisition, credit discounts representing principal losses expected over the life of the loans are a component of the initial fair value, and the discount is accreted to interest income over the life of the asset. Subsequent to the purchase date, the method used to evaluate the sufficiency of the credit discount is similar to originated loans, and if necessary, additional reserves are recognized in the allowance for loan losses.

Table of Contents

The unpaid principal balances and the related carrying amount of acquired loans as of March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019	December 31, 2018
Credit impaired purchased loans evaluated individually for incurred credit losses:		
Outstanding balance	$ 6,970	$ 7,491
Carrying Amount	3,487	3,825
Other purchased loans evaluated collectively for incurred credit losses:		
Outstanding balance	297,987	315,013
Carrying Amount	297,522	314,328
Total Purchased Loans:		
Outstanding balance	304,957	322,504
Carrying Amount	$ 301,009	$ 318,153

As of the indicated dates, the changes in the accretable discount related to the purchased credit impaired loans were as follows:

	Quarter Ended March 31,	
	2019	2018
Balance—beginning of period	$ 579	$ 2,129
Additions		
Accretion recognized during the period	(183)	(1,443)
Net reclassification from non-accretable to accretable	34	969
Balance—end of period	$ 430	$ 1,655

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused portions of lines of credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

Unused commitments at March 31, 2019, totaled $139,086 consisting of $71,867 in commitments to extend credit, $61,488 in unused portions of lines of credit and $5,731 in standby letters of credit. Due to fixed maturity dates, specified conditions within these instruments, and the ultimate needs of our customers, many will expire without being drawn upon. We believe that amounts actually drawn upon can be funded in the normal course of operations and therefore, do not represent a significant liquidity risk to us. In comparison, unused commitments, at December 31, 2018, totaled $161,732, consisting of $96,431 in commitments to extend credit, $59,512 in unused portions of lines of credit and $5,789 in standby letters of credit.

6. Other assets:

The components of other assets at March 31, 2019 and December 31, 2018 are summarized as follows:

	March 31, 2019	December 31, 2018
Other real estate owned	$ 461	$ 721
Bank owned life insurance	30,049	29,862
Restricted equity securities	1,008	1,054
Deferred tax assets	5,721	5,884
Lease right-to-use assets	3,606	
Other assets	7,361	4,635
Total	$ 48,206	$ 42,156

As a member of the Federal Home Loan Bank of Pittsburgh (“FHLB”) and Atlantic Community Bankers Bank (“ACBB”), the Company is required to purchase and hold stock in these entities to satisfy membership and borrowing requirements. These restricted

equity securities can only be redeemed or sold at their par value and only to the respective issuing institution or to another member institution. The Company records these non-marketable equity securities as a component of other assets and periodically evaluates these securities for impairment. Management considers these non-marketable equity securities to be long-term investments. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than recognizing temporary declines in value.

7. Leases:

On January 1, 2019, the Company adopted ASU 2016-02, Leases, as further explained in Note 1, Summary of Significant Accounting Policies. The Company's primary leasing activities relate to certain real estate leases entered into in support of the Company's branch operations and back office operations. On January 1, 2019, the Company leased 12 of its 32 locations. The Company's branch locations operating under lease agreements have all been designated as operating leases. In addition, the Company leases certain equipment under operating leases. The Company does not have leases designated as finance leases.

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease pre-payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which the Company has elected to account for separately as the non-lease component amounts are readily determinable under most leases.

As of March 31, 2019 the Company's lease ROU assets and related lease liabilities were $3,606 and $3,616, respectively, and have remaining terms ranging from 1 to 35 years, including extension options that the Company is reasonably certain will be exercised. For the quarter ended March 31, 2019, operating lease cost totaled $147.

The table below summarizes other information related to our operating leases:

	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 136
ROU assets obtained in exchange for lease liabilities	$ 3,719
Weighted average remaining lease term—operating leases, in years	12.10
Weighted average discount rate—operating leases	3.29%

The following table outlines lease payment obligations as outlined in the Company's lease agreements for each of the next five years and thereafter in addition to a reconcilement to the Company's current lease liability.

2019	$ 410
2020	530
2021	531
2022	496
2023	352
Thereafter	2,239
Total lease payments	4,558
Less imputed interest	(942)
	$3,616

As of March 31, 2019 , the Company had not entered into any material leases that have not yet commenced.

8. Fair value estimates:

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosure under GAAP. Fair value estimates are calculated without attempting to estimate the value of anticipated future business and the value of certain assets and liabilities that are not considered financial. Accordingly, such assets and liabilities are excluded from disclosure requirements.

In accordance with FASB ASC 820, "Fair Value Measurements and Disclosures", fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets. In many cases, these values cannot be realized in immediate settlement of the instrument. Current fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction that is not a forced liquidation or distressed sale between participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with GAAP, the Company groups its assets and liabilities generally measured at fair value into three levels based on market information or other fair value estimates in which the assets and liabilities are traded or valued, and the reliability of the assumptions used to determine fair value. These levels include:

- Level 1: Unadjusted quoted prices of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

An asset's or liability's placement in the fair value hierarchy is based on the lowest level of input that is significant to the fair value estimate.

The following methods and assumptions were used by the Company to calculate fair values and related carrying amounts of assets and liabilities measured at fair value on a recurring basis:

Investment securities: The fair values of U.S. Treasury securities and marketable equity securities are based on quoted market prices from active exchange markets. The fair values of debt securities are based on pricing from a matrix pricing model.

Assets and liabilities measured at fair value on a recurring basis at March 31, 2019 and December 31, 2018 are summarized as follows:

		Fair Value Measurement Using		
March 31, 2019	**Amount**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
State and Municipals:				
Taxable	$ 30,443		$ 30,443	
Tax-exempt	7,668		7,668	
Mortgage-backed securities:				
U.S. Government agencies	27,282		27,282	
U.S. Government-sponsored enterprises	26,430		26,430	
Corporate debt obligations	8,861		8,861	
Total	$100,684		$ 100,684	

December 31, 2018	Amount	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
State and municipals:				
Taxable	$ 33,278		$ 33,278	
Tax-exempt	12,776		12,776	
Mortgage-backed securities:				
U.S. Government agencies	23,670		23,670	
U.S. Government-sponsored enterprises	26,195		26,195	
Corporate debt obligations	8,758		8,758	
Total	$104,677		$ 104,677	

Other real estate owned: Assets acquired through loan foreclosure are recorded at fair value less costs to sell, with any difference between the fair value of the property and the carrying value of the loan recorded as a charge-off. If the fair value is higher than the carrying amount of the loan, the excess is recognized first as a recovery and then as noninterest income. Subsequent changes in value are reported as adjustments to the carrying amount and are recorded in noninterest expense. The carrying value of other real estate owned is not re-measured to fair value on a recurring basis, but is subject to fair value adjustments when the carrying value differs from the fair value, less estimated selling costs. Fair value is based on recent real estate appraisals and is updated at least annually. The Company classifies other real estate owned in level 3 of the fair value hierarchy.

Impaired loans: The fair value of impaired loans is specifically reviewed for purposes of determining the appropriate amount of impairment to be allocated to the ALLL. Fair value is generally measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed third-party appraiser (Level 3). The value of business equipment is based on an outside appraisal, if deemed significant, or the net book value on the applicable borrower financial statements. Likewise, values for inventory and accounts receivable collateral are based on borrower financial statement balances or aging reports on a discounted basis as appropriate (Level 3). Impaired loans are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan and lease losses on the Consolidated Statements of Income (Loss).

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2019 and December 31, 2018 are summarized as follows:

March 31, 2019	Amount	Fair Value Measurement Using (Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Other real estate owned	$ 461			$ 461
Impaired loans, net of related allowance	1,169			1,169
Total	$ 1,630			$ 1,630

December 31, 2018	Amount	Fair Value Measurement Using (Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Other real estate owned	$ 721			$ 721
Impaired loans, net of related allowance	1,476			1,476
Total	$ 2,197			$ 2,197

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company utilized Level 3 inputs to determine fair value at March 31, 2019 and December 31, 2018

March 31, 2019	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
	Quantitative Information about Level 3 Fair Value Measurements			
Other real estate owned	$ 461	Appraisal of collateral	Appraisal adjustments	8.0% to 69.0% (33.1)%
			Liquidation expenses	7.0% to 7.0% (7.0)%
Impaired loans	$ 1,169	Appraisal of collateral	Appraisal adjustments	0.0% to 0.0% (0.0)%
			Liquidation expenses	6.0% to 25.0% (12.3)%

December 31, 2018	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
	Quantitative Information about Level 3 Fair Value Measurements			
Other real estate owned	$ 721	Appraisal of collateral	Appraisal adjustments	0.0% to 69.0% (28.4)%
			Liquidation expenses	0.0% to 7.0% (7.0)%
Impaired loans	$ 1,476	Appraisal of collateral	Appraisal adjustments	0.0% to 0.0% (0.0)%
			Liquidation expenses	7.0% to 25.0% (10.3)%

The carrying and fair values of the Company's financial instruments at March 31, 2019 and December 31, 2018 and their placement within the fair value hierarchy are as follows:

		Fair Value Hierarchy			
March 31, 2019	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 68,101	$ 68,101	$ 68,101		
Investment securities	100,684	100,684		$ 100,684	
Loans held for sale	695	695		695	
Net loans [(1)]	871,584	857,801			$ 857,801
Accrued interest receivable	3,018	3,018		737	2,281
Financial liabilities:					
Deposits	$1,001,029	$998,430		$ 998,430	
Long-term debt	6,912	6,912		6,912	
Accrued interest payable	475	475		475	

		Fair Value Hierarchy			
December 31, 2018	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 53,816	$ 53,816	$ 53,816		
Investment securities available-for-sale	104,677	104,677		$ 104,677	
Loans held for sale	637	637		637	
Net loans [(1)]	886,836	872,455			$ 872,455
Accrued interest receivable	3,010	3,010		663	2,347
Financial liabilities:					
Deposits	$1,004,593	$999,929		$ 999,929	
Long-term debt	6,892	6,892		6,892	
Accrued interest payable	484	484		484	

(1) The carrying amount is net of unearned income and the allowance for loan losses in accordance with the adoption of ASU No. 2016-01 where the fair value of loans as of March 31, 2019 and December 31, 2018 was measured using an exit price notion.

Table of Contents

Note 9. Revenue recognition:

On January 1, 2018, the Company adopted ASU No. 2014-09 "Revenue from Contracts with Customers" (Topic 606) and all subsequent ASUs that modified Topic 606. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and other fees. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges, Fees and Commissions

Service charges on deposit accounts consist of monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Mastercard. Such income is presented net of network expenses as the Company acts as an agent in these transactions. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM, or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Other noninterest income consists of other recurring revenue streams such as commissions from sales of mutual funds and other investments, investment advisor fees from wealth management products, safety deposit box rental fees, and other miscellaneous revenue streams. Commissions from the sale of mutual funds and other investments are recognized on trade date, which is when the Company has satisfied its performance obligation. The Company also receives periodic service fees or trailers from mutual fund companies typically based on a percentage of net asset value. Trailer revenue is recorded over time, usually monthly or quarterly, as net asset value is determined. Investment advisor fees from wealth management products is earned over time and based on an annual percentage rate of the net asset value. The investment advisor fees are charged to the customer's account in advance on the first month of the quarter, and the revenue is recognized over the following three-month period. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

Trust and Asset Management

Trust and asset management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to customers' accounts. The Company does not earn performance-based incentives. Optional services such as real estate sales and tax return preparation services are also available to existing trust and asset management customers. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three months ended March 31, 2019 and 2018.

March 31,	2019	2018
Noninterest Income:		
In-scope of Topic 606:		
Service charges, fees and commissions	$1,053	$1,228
Trust and asset management	507	364
Noninterest income (in-scope of Topic 606)	1,560	1,592
Noninterest income (out-of-scope of Topic 606)	251	361
Total noninterest income	$1,811	$1,953

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration, resulting in a contract receivable, or before payment is due, resulting in a contract asset. A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of March 31, 2019 and December 31, 2018, the Company did not have any significant contract balances.

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained, for example, sales commission. The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition cost.

Riverview Financial Corporation
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Dollars in thousands, except per share data)

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

The following discussion and analysis should be read in conjunction with the unaudited consolidated interim financial statements contained in Part I, Item 1 of this report, and with our audited consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" presented in our Annual Report on Form 10-K for the year ended December 31, 2018.

Cautionary Note Regarding Forward-Looking Statements:

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to risks and uncertainties. These statements are based on assumptions and may describe future plans, strategies and expectations of Riverview Financial Corporation and its direct and indirect subsidiaries. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. All statements in this report, other than statements of historical facts, are forward-looking statements.

Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Important factors that could cause our actual results to differ materially from those in the forward-looking statements include, but are not limited to: our ability to achieve the intended benefits of acquisitions and integration of previously acquired businesses; restructuring initiatives; changes in interest rates; economic conditions, particularly in our market area; legislative and regulatory changes and the ability to comply with the significant laws and regulations governing the banking and financial services business; monetary and fiscal policies of the U.S. government, including policies of the U.S. Department of Treasury and the Federal Reserve System; credit risk associated with lending activities and changes in the quality and composition of our loan and investment portfolios; demand for loan and other products; deposit flows; competition; changes in the values of real estate and other collateral securing the loan portfolio, particularly in our market area; changes in relevant accounting principles and guidelines; and inability of third party service providers to perform.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, Riverview Financial Corporation does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Notes to the Consolidated Financial Statements referred to in the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") are incorporated by reference into the MD&A. Certain prior period amounts have been reclassified to conform with the current year's presentation and did not have any effect on the operating results or financial position of the Company.

Critical Accounting Policies:

Disclosure of our significant accounting policies are included in Note 1 to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2018. Some of these policies are particularly sensitive requiring significant judgments, estimates and assumptions. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and could potentially result in materially different results under different assumptions and conditions. We believe that the most critical accounting policies upon which our financial condition and results of operation depend, and which involve the most complex subjective decisions or assessments, are included in Note 1 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as filed with the Securities and Exchange Commission on March 14, 2019.

Operating Environment:

Growth increased in the first quarter of 2019 from 2.2% recorded in the fourth quarter of 2018, reflecting positive contributions from personal consumption expenditures, private inventory investment, exports, state and local government spending and nonresidential fixed investment. The gross domestic product ("GDP"), the value of all goods and services produced in the United States, increased at an annualized rate of 3.2% in the first quarter of 2019. The consumer price index for the last 12 months rose 1.9% ending March 31, 2019. Excluding the food and energy components, core consumer price index increased 2.0% over the latest twelve months which

equaled the Federal Open Market Committee ("FOMC") inflation benchmark of 2.0%. Based on previous trends of higher inflation followed by current trends toward price stability and slower growth, the FOMC held the federal funds target rate range on March 20, 2019 at 2.25% to 2.50%. The FOMC is expected to hold course on rate changes until there are more indications regarding future economic activity. Accordingly, additional interest rate increases may have an adverse impact on our loan growth, asset quality and fund costs.

Review of Financial Position:

Total assets increased $1,109 to $1,138,712 at March 31, 2019, from $1,137,603 at December 31, 2018. Loans, net decreased to $878,070 at March 31, 2019, compared to $893,184 at December 31, 2018, a decrease of $15,114. Business lending, including commercial and commercial real estate loans decreased $11,542, retail lending, including residential mortgages and consumer loans decreased $7,307, while construction lending increase $3,735 during the three months ended March 31, 2019. Investment securities decreased $3,993, or 3.8%, in the three months ended March 31, 2019. Noninterest-bearing deposits increased $2,306, while interest-bearing deposits decreased $5,870 in the three months ended March 31, 2019. Total stockholders' equity decreased $420, or 0.4%, to $113,490 at March 31, 2019 from $113,910 at year-end 2018. For the three months ended March 31, 2019, total assets averaged $1,129,650, a decrease of $33,592 from $1,163,242 for the same period in 2018.

Investment Portfolio:

The Company's entire investment portfolio is held as available-for-sale, which allows for greater flexibility in using the investment portfolio for liquidity purposes by allowing securities to be sold when favorable market opportunities exist. Investment securities available-for-sale totaled $100,684 at March 31, 2019, a decrease of $3,993, or 3.8%, from $104,677 at December 31, 2018. The decrease was a result of payments, prepayments, and sales on investments partially offset by $7,647 securities acquired in the three months ended March 31, 2019.

For the three months ended March 31, 2019, the investment portfolio averaged $108,256, an increase of $15,468, compared to $92,788 for the same period last year. The tax-equivalent yield on the investment portfolio increased to 3.10% for the three months ended March 31, 2019, from 2.74% for the comparable period of 2018. The tax-equivalent yield on the investment portfolio for the first quarter of 2019 increased 11 basis points to 3.10% from 2.99% for the fourth quarter of 2018.

Securities available-for-sale are carried at fair value, with unrealized gains or losses net of deferred income taxes reported in the accumulated other comprehensive income (loss) component of stockholders' equity. We reported a net unrealized holding loss, included as a separate component of stockholders' equity of $884, net of deferred income taxes of $234 at March 31, 2019, and $1,725, net of deferred income taxes of $458 at December 31, 2018. The decrease in the net unrealized holding loss was a result of reductions in general market rates.

Loan Portfolio:

Loans, net, decreased to $878,070 at March 31, 2019 from $893,184 at December 31, 2018, a decrease of $15,114, or 1.7%. Business loans, including commercial and commercial real estate loans, decreased $11,542, or 1.9%, to $608,974 at March 31, 2019 from $620,516 at December 31, 2018. Retail loans, including residential real estate and consumer loans, decreased $7,307, or 3.1%, to $225,805 at March 31, 2019 from $233,112 at December 31, 2018. Construction lending increased $3,735 or 9.4% to 43,291 at March 31, 2019 from $39,556 at December 31, 2018. Loan originations in the first three months of 2019 represented a more moderate pace as compared to the same period of 2018. The reduction in loan growth was a result of management's decision to focus on improving margins on loan originations through employing prudent pricing practices and maintaining strong underwriting standards.

For the three months ended March 31, 2019, loans, net averaged $886,813, a decrease of $58,914 compared to $945,727 for the same period of 2018. The tax-equivalent yield on the loan portfolio was 5.02% for the three months ended March 31, 2019, a 36 basis point decrease from the comparable period last year. Loan accretion included in loan interest income in the first three months of 2019 related to acquired loans was $439. The tax-equivalent yield on the loan portfolio decreased 49 basis points during the first quarter of 2019 to 5.02% from 5.51% in the fourth quarter of 2018. The primary cause of the decrease in the tax-equivalent yield was the realization of lower accretion on purchased loans.

In addition to the risks inherent in our loan portfolio in the normal course of business, we are also a party to financial instruments with off-balance sheet risk to meet the financing needs of our customers. These instruments include legally binding commitments to extend credit, unused portions of lines of credit and commercial letters of credit made under the same underwriting standards as on-balance sheet instruments, and may involve, to varying degrees, elements of credit risk and interest rate risk ("IRR") in excess of the amount recognized in the consolidated financial statements.

Table of Contents

Off-balance sheet commitments at March 31, 2019, totaled $139,086, consisting of $71,867 in commitments to extend credit, $61,488 in unused portions of lines of credit and $5,731 in standby letters of credit. Due to fixed maturity dates, specified conditions within these instruments, and the ultimate needs of our customers, many will expire without being drawn upon. We believe that amounts actually drawn upon can be funded in the normal course of operations and therefore, do not represent a significant liquidity risk to us. In comparison, off-balance sheet commitments, at December 31, 2018, totaled $161,732, consisting of $96,431 in commitments to extend credit, $59,512 in unused portions of lines of credit and $5,789 in standby letters of credit.

Asset Quality:

National, Pennsylvania and market area unemployment rates at March 31, 2019 and 2018 are summarized as follows:

	2019	2018
United States	3.8%	4.0%
Pennsylvania	3.9%	4.4%
Berks County	4.1%	4.3%
Blair County	4.2%	4.3%
Centre County	3.1%	3.1%
Clearfield County	5.5%	5.7%
Dauphin County	3.7%	4.0%
Huntingdon County	6.4%	6.3%
Lebanon County	3.7%	3.8%
Lycoming County	5.0%	5.5%
Northumberland County	5.8%	5.8%
Perry County	3.8%	3.9%
Schuylkill County	5.4%	5.5%
Somerset County	5.8%	6.1%

Employment conditions in 2019 improved for the United States and Commonwealth of Pennsylvania, and either improved or remained the same for all of the Counties in which we have branch locations with the exception of Huntingdon County. The average unemployment rate for all of our Counties improved to 4.7% in 2019 from 4.9% in 2018. The lowest unemployment rate in 2019 for all the Counties we serve was 3.1% which was in Centre County with the highest recorded rate being 6.4% in Huntingdon County. An increase in unemployment rates may have a negative impact on economic growth within these areas and could have a corresponding effect on our business by decreasing loan demand and weakening asset quality.

Our asset quality improved in the three months ended March 31, 2019. Nonperforming assets decreased $1,245, or 17.3% to $5,957 at March 31, 2019, from $7,202 at December 31, 2018. We experienced decreases in nonaccrual loans, other real estate owned, accruing loans past due 90 days or more and accruing restructured loans. As a percentage of loans, net and foreclosed assets, nonperforming assets equaled 0.68% at March 31, 2019 compared to 0.81% at December 31, 2018.

Loans on nonaccrual status decreased $86 to $2,643 at March 31, 2019 from $2,729 at December 31, 2018. The decrease in nonaccrual loans was due to decreases of $300 in commercial loans partially offset by increases of $79 in commercial real estate loans and $135 in residential real estate loans. Accruing troubled debt restructured loans declined $182, to $2,731 at March 31, 2019 from $2,913 at December 31, 2018. Accruing loans past due 90 days or more decreased $717, while other real estate owned decreased $260 during the three months ended March 31, 2019.

Nonperforming assets decreased $2,467 to $5,957 at March 31, 2019 from $8,424 at March 31, 2018. Decreases in accruing troubled debt restructured loans and accruing loans past due 90 days or more were partially offset by increases in nonaccrual loans and other real estate owned.

Generally, maintaining a high loan to deposit ratio is our primary goal in order to maximize profitability. However, this objective is superseded by our attempts to ensure that asset quality remains strong. We continue to focus our efforts on maintaining sound underwriting standards for both commercial and consumer credit.

We maintain the allowance for loan losses at a level we believe adequate to absorb probable credit losses related to specifically identified loans, as well as probable incurred loan losses inherent in the remainder of the loan portfolio as of the balance sheet date. The allowance for loan losses is based on past events and current economic conditions. We employ the Federal Financial Institutions Examination Council Interagency Policy Statement, as amended, and GAAP in assessing the adequacy of the allowance account. Under GAAP, the adequacy of the allowance account is determined based on the provisions of FASB Accounting Standards

Codification (“ASC”) 310, “Receivables”, for loans specifically identified to be individually evaluated for impairment and the requirements of FASB ASC 450, “Contingencies”, for large groups of smaller-balance homogeneous loans to be collectively evaluated for impairment.

We follow our systematic methodology in accordance with procedural discipline by applying it in the same manner regardless of whether the allowance is being determined at a high point or a low point in the economic cycle. Each quarter, the Chief Credit Officer identifies those loans to be individually evaluated for impairment and those loans collectively evaluated for impairment utilizing standard criteria. Grades are assigned quarterly to loans identified to be individually evaluated. A loan’s grade may differ from period to period based on current conditions and events. However, we consistently utilize the same grading system each quarter. We consistently use loss experience from the latest eight quarters in determining the historical loss factor for each pool collectively evaluated for impairment. Qualitative factors are evaluated in the same manner each quarter and are adjusted within a relevant range of values based on current conditions. For additional disclosure related to the allowance for loan losses refer to the note entitled, “Loans, net and Allowance for Loan Losses”, in the Notes to Consolidated Financial Statements to this Quarterly Report.

The allowance for loan losses increased $138 to $6,486 at March 31, 2019, from $6,348 at the end of 2018. The increase in the allowance was a result of the provision for loan losses of $583 for the first three months of 2019 exceeding net charge-offs for the period. For the three months ended March 31, net charge-offs were $445 or 0.20% of average loans outstanding in 2019 compared to $181, or 0.08% of average loans outstanding in 2018.

Deposits:

We attract the majority of our deposits from within our twelve-county market area by offering various deposit products including demand deposit accounts, NOW accounts, business checking accounts, money market deposit accounts, savings accounts, club accounts and time deposits, including certificates of deposit and IRA’s. For the three months ended March 31, 2019, total deposits decreased to $1,001,029 from $1,004,593 at December 31, 2018. Noninterest-bearing transaction accounts increased $2,306, while interest-bearing transaction accounts decreased $3,926 and time deposits decreased $1,944 in the three months ended March 31, 2019.

For the three months ended March 31, interest-bearing deposits averaged $835,687 in 2019 compared to $875,985 in 2018. The cost of interest-bearing deposits was 1.01% in 2019 compared to 0.72% in 2018. The cost of interest-bearing deposits increased six basis points comparing the first quarter of 2019 with the fourth quarter of 2018. Corresponding with recent FOMC actions, interest rates have increased from historic lows that existed for an extended period. All deposit rates have increased and as such, we anticipate further increases in our cost of deposits.

Borrowings:

The Bank utilizes borrowings as a secondary source of liquidity for its asset/liability management. Advances are available from the Federal Home Loan Bank of Pittsburgh (“FHLB”) provided certain standards related to credit worthiness have been met. Repurchase and term agreements are also available from the FHLB.

Short-term borrowings are generally used to meet temporary funding needs and consist of federal funds purchased, securities sold under agreements to repurchase, and overnight and short-term borrowings from the Atlantic Community Bankers Bank (“ACBB”), Pacific Community Bankers Bank and the FHLB. At March 31, 2019 and December 31, 2018, we did not have any short-term borrowings outstanding. For the three months ended March 31, we did not utilize short-term borrowings in 2019 while short-term borrowings averages $7,297 in 2018. The average cost of short-term borrowings was 1.67% in the three months ended March 31, 2018.

Long-term debt totaled $6,912 at March 31, 2019 as compared to $6,892 at December 31, 2018. For the three months ended March 31, long-term debt averaged $6,902 in 2019 and $13,205 in 2018. The reduction in average balance was due to the paydown of $6,085 in borrowings in December of 2018. The average cost of long-term debt was 7.87% in the three months ended March 31, 2019 and 5.41% for the same period last year.

Market Risk Sensitivity:

Market risk is the risk to our earnings or financial position resulting from adverse changes in market rates or prices, such as interest rates, foreign exchange rates or equity prices. Our exposure to market risk is primarily interest rate risk (“IRR”) associated with our lending, investing and deposit-gathering activities. During the normal course of business, we are not exposed to foreign exchange risk or commodity price risk. Our exposure to IRR can be explained as the potential for change in our reported earnings and/or the market value of our net worth. Variations in interest rates affect earnings by changing net interest income and the level of other interest-sensitive income and operating expenses. Interest rate changes also affect the underlying economic value of our assets, liabilities and off-balance sheet items. These changes arise because the present value of future cash flows, and often the cash flows themselves,

change with interest rates. The effects of the changes in these present values reflect the change in our underlying economic value and provide a basis for the expected change in future earnings related to interest rates. IRR is inherent in the role of banks as financial intermediaries. However, a bank with a high degree of IRR may experience lower earnings, impaired liquidity and capital positions, and most likely, a greater risk of insolvency. Therefore, banks must carefully evaluate IRR to promote safety and soundness in their activities.

As a result of FOMC actions to raise short-term interest rates, it has become challenging to manage IRR. IRR and effectively managing it are very important to both bank management and regulators. Bank regulations require us to develop and maintain an IRR management program, overseen by the Board of Directors and senior management, which involves a comprehensive risk management process in order to effectively identify, measure, monitor and control risk. Should bank regulatory agencies identify a material weakness in a bank's risk management process or high-risk exposure relative to capital, bank regulatory agencies may take action to remedy these shortcomings. Moreover, the level of IRR exposure and the quality of a bank's risk management process is a determining factor when evaluating capital adequacy.

The Asset Liability committee ("ALCO"), comprised of members of our senior management and other appropriate officers, oversees our IRR management program. Specifically, ALCO analyzes economic data and market interest rate trends, as well as competitive pressures, and utilizes computerized modeling techniques to reveal potential exposure to IRR. This allows us to monitor and attempt to control the influence these factors may have on our rate-sensitive assets ("RSA") and rate-sensitive liabilities ("RSL"), and overall operating results and financial position. One such technique utilizes a static gap model that considers repricing frequencies of RSA and RSL in order to monitor IRR. Gap analysis attempts to measure our interest rate exposure by calculating the net amount of RSA and RSL that reprice within specific time intervals. A positive gap occurs when the amount of RSA repricing in a specific period is greater than the amount of RSL repricing within that same time frame and is indicated by a RSA/RSL ratio greater than 1.0. A negative gap occurs when the amount of RSL repricing is greater than the amount of RSA and is indicated by a RSA/RSL ratio of less than 1.0. A positive gap implies that earnings will be impacted favorably if interest rates rise and adversely if interest rates fall during the period. A negative gap tends to indicate that earnings will be affected inversely to interest rate changes.

Our cumulative one-year RSA/RSL ratio equaled 1.66 at March 31, 2019. Given the recent actions of the FOMC and the potential for rates to increase in the future, the focus of ALCO has been to maintain a positive static gap position.

The current position at March 31, 2019, indicates that the amount of RSA repricing within one year would exceed that of RSL, thereby causing increases in market rates, to increase net interest income. However, these forward-looking statements are qualified in the aforementioned section entitled "Forward-Looking Discussion" in this Management's Discussion and Analysis.

Static gap analysis, although a standard measuring tool, does not fully illustrate the impact of interest rate changes on future earnings. First, market rate changes normally do not equally or simultaneously affect all categories of assets and liabilities. Second, assets and liabilities that can contractually reprice within the same period may not do so at the same time or to the same magnitude. Third, the interest rate sensitivity table presents a one-day position. Variations occur daily as we adjust our rate sensitivity throughout the year. Finally, assumptions must be made in constructing such a table.

As the static gap report fails to address the dynamic changes in the balance sheet composition or prevailing interest rates, we utilize a simulation model to enhance our asset/liability management. This model is used to create pro forma net interest income scenarios under various interest rate shocks. Model results at March 31, 2019, produced similar results from those indicated by the one-year static gap position. Given an instantaneous and parallel shift in interest rates of plus 100 basis points, our projected net interest income for the 12 months ending March 31, 2019, would increase 5.2% from model results using current interest rates. We will continue to monitor our IRR through employing deposit and loan pricing strategies and directing the reinvestment of loan and investment repayments in order to manage our IRR position.

Financial institutions are affected differently by inflation than commercial and industrial companies that have significant investments in fixed assets and inventories. Most of our assets are monetary in nature and change correspondingly with variations in the inflation rate. It is difficult to precisely measure the impact inflation has on us, however we believe that our exposure to inflation can be mitigated through asset/liability management.

Liquidity:

Liquidity management is essential to our continuing operations and enables us to meet financial obligations as they come due, as well as to take advantage of new business opportunities as they arise. Financial obligations include, but are not limited to, the following:

- Funding new and existing loan commitments;
- Payment of deposits on demand or at their contractual maturity;

- Repayment of borrowings as they mature;
- Payment of lease obligations; and
- Payment of operating expenses.

These obligations are managed daily, thus enabling us to effectively monitor fluctuations in our liquidity position and to adapt that position according to market influences and balance sheet trends. Future liquidity needs are forecasted, and strategies are developed to ensure adequate liquidity at all times.

Historically, core deposits have been the primary source of liquidity because of their stability and lower cost, in general, than other types of funding. Providing additional sources of funds are loan and investment payments and prepayments and the ability to sell both available for sale securities and mortgage loans held for sale. We believe liquidity is adequate to meet both present and future financial obligations and commitments on a timely basis.

We employ a number of analytical techniques in assessing the adequacy of our liquidity position. One such technique is the use of ratio analysis to determine the extent of our reliance on noncore funds to fund our investments and loans maturing after March 31, 2019. Our noncore funds at March 31, 2019, were comprised of time deposits in denominations of $250 or more and other borrowings. These funds are not considered to be a strong source of liquidity since they are very interest rate sensitive and are considered to be highly volatile. At March 31, 2019, our net noncore funding dependence ratio, the difference between noncore funds and short-term investments to long-term assets, was (1.89)%, while our net short-term noncore funding ratio, noncore funds maturing within one-year, less short-term investments to assets equaled 1.72%. Comparatively, our net noncore dependence ratio improved from year-end 2018 when it was 0.65%. Similarly, our net short-term noncore funding ratio was 1.73% at year-end, indicating that our reliance on short-term noncore funds decreased slightly from year-end 2018.

The Consolidated Statements of Cash Flows present the changes in cash and cash equivalents from operating, investing and financing activities. Cash and cash equivalents, consisting of cash on hand, cash items in the process of collection, deposit balances with other banks and federal funds sold, increased $14,285 during the three months ended March 31, 2019. Cash and cash equivalents increased $34,063 for the same period last year. For the three months ended March 31, 2019, we realized net cash outflows of $1,237 and $4,118 from operating and financing activities, respectively, and net cash inflows of $19,640 from investing activities. For the same period of 2018, we recognized net cash inflows of $1,224 from operating activities, $26,603 from investing activities and $6,236 from financing activities.

Operating activities used net cash of $1,237 for the three months ended March 31, 2019 compared to providing $1,224 for the same period last year. Net income, adjusted for the effects of gains and losses along with noncash transactions such as depreciation, amortization and the provision for loan losses, is the primary source of funds from operations.

Investing activities primarily include transactions related to our lending activities and investment portfolio. Investing activities provided net cash of $19,640 for the three months ended March 31, 2019. For the comparable period in 2018, investing activities provided net cash of $26,603. For the three months ended March 31, 2019 and 2018, payments and prepayments on loans exceeding loan originations was the primary factor causing the net cash inflow from investing activities

Financing activities utilized net cash of $4,118 for the three months ended March 31, 2019 and provided $6,236 for the same period last year. Deposit gathering is a predominant financing activity. During the three months ended March 31, 2019 deposits decreased $3,564 and increased $12,125 for the same period in 2018. The payment of a cash dividends of $915 also impacted net cash from financing activities in 2019. The repayment of short-term borrowings of $6,000 in the first quarter of 2018 partially offset the increase in net cash from deposit activities.

We believe that our future liquidity needs will be satisfied through maintaining an adequate level of cash and cash equivalents, by maintaining readily available access to traditional funding sources, and through proceeds received from the investment and loan portfolios. The current sources of funds are expected to enable us to meet all cash obligations as they come due.

Capital:

Stockholders' equity totaled $113,490, or $12.40 per common share, at March 31, 2019, and $113,910, or $12.49 per common share, at December 31, 2018. The net decrease in stockholders' equity in the three months ended March 31, 2019 was a result of the recognition of net loss of $687 and the payout of cash dividends of $915, partially offset by the issuance of common stock to Riverview's ESPP, 401k and dividend reinvestment plans of $175, the issuance of common stock related to the stock options exercised of $166 and the recognition of a change in other comprehensive income of $841.

Table of Contents

Bank regulatory agencies consider capital to be a significant factor in ensuring the safety of a depositor's accounts. These agencies have adopted minimum capital adequacy requirements that include mandatory and discretionary supervisory actions for noncompliance.

The Bank's capital ratios and the minimum ratios required for capital adequacy purposes and to be considered well capitalized under the prompt corrective action provisions are summarized below for the periods ended March 31, 2019 and December 31, 2018:

	Actual		Minimum Regulatory Capital Ratios under Basel III (with 2.5% capital conservation buffer phase-in)		Well Capitalized under Basel III	
March 31, 2019:	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total risk-based capital (to risk-weighted assets)	$ 99,185	11.4%	$ 91,021	≥ 10.50%	$ 86,687	≥ 10.0%
Tier 1 capital (to risk-weighted assets)	92,626	10.7	73,684	≥ 8.50	69,350	≥ 8.0
Common equity tier 1 risk-based capital (to risk-weighted assets)	92,626	10.7	60,681	≥ 7.00	56,347	≥ 6.5
Tier 1 capital (to average total assets)	92,626	8.4	44,114	≥ 4.00	55,143	≥ 5.0

	Actual		Minimum Regulatory Capital Ratios under Basel III (with 1.875% capital conservation buffer phase-in)		Well Capitalized under Basel III	
December 31, 2018:	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total risk-based capital (to risk-weighted assets)	$100,001	11.4%	$ 86,443	≥ 9.875%	$ 87,538	≥ 10.0%
Tier 1 capital (to risk-weighted assets)	93,580	10.7	68,936	≥ 7.875	70,030	≥ 8.0
Common equity tier 1 risk-based capital (to risk-weighted assets)	93,580	10.7	55,805	≥ 6.375	56,900	≥ 6.5
Tier 1 capital (to average total assets)	93,580	8.4	44,733	≥ 4.000	55,916	≥ 5.0

Based on the most recent notification from the FDIC, the Bank was categorized as well capitalized at March 31, 2019 and December 31, 2018. There are no conditions or negative events since this notification that we believe have changed the Bank's category.

Review of Financial Performance:

We reported a net loss of $687, or $(0.08) per basic and diluted weighted average common share for the three months ended March 31, 2019, compared to net income of $2,811, or $0.31 per basic and diluted weighted average common share, for the comparable period of 2018. The return on average assets and return on average stockholders' equity were (0.25)% and (2.46)% for the three months ended March 31, 2019. The reduction in net income recognized in 2019 was directly attributable to recording pre-tax expense of $2,218 related to an executive separation of service agreement and from reduced interest income related to lower loan levels. The decline in loan volumes was due to merger related attrition, including payoffs on acquired purchase credit impaired loans and steadfast adherence to both credit quality underwriting standards and prudent pricing discipline.

Net Interest Income:

Net interest income is the fundamental source of earnings for commercial banks. Fluctuations in the level of net interest income can have the greatest impact on net profits. Net interest income is defined as the difference between interest revenue, interest and fees earned on interest-earning assets, and interest expense, the cost of interest-bearing liabilities supporting those assets. The primary sources of earning assets are loans and investment securities, while interest-bearing deposits, short-term and long-term borrowings comprise interest-bearing liabilities. Net interest income is impacted by:

- Variations in the volume, rate and composition of earning assets and interest-bearing liabilities;
- Changes in general market rates; and
- The level of nonperforming assets.

Changes in net interest income are measured by the net interest spread and net interest margin. Net interest spread, the difference between the average yield earned on earning assets and the average rate incurred on interest-bearing liabilities, illustrates the effects changing interest rates have on profitability. Net interest margin, net interest income as a percentage of earning assets, is a more

comprehensive ratio, as it reflects not only the spread, but also the change in the composition of interest-earning assets and interest-bearing liabilities. Tax-exempt loans and investments carry pre-tax yields lower than their taxable counterparts. Therefore, in order to make the analysis of net interest income more comparable, tax-exempt income and yields are reported herein on a tax-equivalent basis using the prevailing federal statutory tax rate of 21% in 2019 and 21% in 2018.

For the three months ended March 31, tax-equivalent net interest income decreased $1,663 to $9,830 in 2019 from $11,493 in 2018. The decrease in tax-equivalent net interest income was primarily attributable to a net decline in average loans of $58,914. Overall, average earning assets decreased $21,181 less than the decline in average interest-bearing liabilities comparing the first quarters of 2019 and 2018. The tax-equivalent net interest margin for the three months ended March 31, was 3.86% in 2019 compared to 4.38% in 2018. The net interest spread decreased to 3.67% for the three months ended March 31, 2019 from 4.25% for the three months ended March 31, 2018. Loan accretion included in loan interest income in the first quarter of 2019 related to loans acquired from mergers was $439 resulting in an increase in the tax-equivalent loan interest yield of 20 basis points. For the same period in 2018 loan accretion income was $1,873, resulting in an increase in the tax-equivalent loan interest yield of 81 basis points.

For the three months ended March 31, 2019, tax-equivalent interest income decreased $1,216, to $12,037 from $13,253 for the three months ended March 31, 2018. A negative volume variance in interest income of $706 attributable to changes in the average balance of earning assets was further magnified by a $510 unfavorable rate variance due to reductions in the yield on earning assets. Specifically, the decrease was primarily due to a reduction in average earning assets which decreased $32,717 to $1,032,022 for the first quarter of 2019 from $1,064,739 for the same period in 2018. The overall yield on earning assets, on a fully tax-equivalent basis, increased for the three months ended March 31, 2019 to 4.73% as compared to 5.05% for the three months ended March 31, 2018. This decrease was a result of the impact of the lower accretion of purchase accounting marks from previous merger activity. Average loans decreased $58,914 comparing the first quarters of 2019 and 2018 which caused tax-equivalent interest income to decrease $799. The tax-equivalent yield on the loan portfolio was 5.02% for the three months ended March 31, 2019 compared to 5.38% for the same period last year. This decrease caused a negative impact on tax-equivalent interest income of $759 comparing the three months ended March 31, 2019 and 2018. The tax-equivalent yield excluding loan accretion from acquired loans would have been 4.82% in the first three months of 2019 as compared to 4.57% for the first three months of 2018. The yield earned on investments increased 36 basis points for the first quarter of 2019 to 3.10% from 2.74% for the first quarter of 2018 and resulted in higher tax-equivalent interest income of $157. Average investments increased to $108,256 for the quarter ended March 31, 2019 compared to $92,788 for the same period in 2018 resulting in an increase in tax-equivalent interest income of $43. Overall tax-equivalent interest earned on investments was $827 for the three-month period ended March 31, 2019 compared to $627 for the same period in 2018.

Total interest expense increased $447 to $2,207 for the three months ended March 31, 2019 from $1,760 for the three months ended March 31, 2018. A favorable volume variance caused interest expenses to decrease $554, while an unfavorable rate variance resulted in a $1,001 increase in fund costs. The average volume of interest-bearing liabilities decreased to $842,589 for the three months ended March 31, 2019, from $896,487 for the three months ended March 31, 2018. Average interest-bearing deposits decreased $40,298 to $835,687 for the first quarter of 2019 from $875,985 for the same period last year. The cost of interest-bearing deposits increased 29 basis points comparing the first quarters of 2019 and 2018. The total cost of funds increased to 1.06% for the three months ended March 31, 2019 as compared to 0.80% for the same period in 2018.

Table of Contents

The average balances of assets and liabilities, corresponding interest income and expense and resulting average yields or rates paid are summarized as follows. Average balances were calculated using average daily balances. Averages for earning assets include nonaccrual loans. Loan fees are included in interest income on loans. Investment averages include available-for-sale securities at amortized cost. Income on investment securities and loans is adjusted to a tax equivalent basis using the prevailing federal statutory tax rate.

	Three months ended					
	March 31, 2019			March 31, 2018		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:						
Earning assets:						
Loans						
Taxable	$ 851,515	$ 10,688	5.09%	$ 908,574	$ 12,241	5.46%
Tax exempt	35,298	291	3.34%	37,153	296	3.23%
Investments						
Taxable	97,041	740	3.09%	76,952	523	2.76%
Tax exempt	11,215	87	3.15%	15,836	104	2.66%
Interest bearing deposits	36,953	231	2.54%	23,607	79	1.36%
Federal funds sold				2,617	10	1.55%
Total earning assets	1,032,022	12,037	4.73%	1,064,739	13,253	5.05%
Less: allowance for loan losses	6,377			6,474		
Other assets	104,005			104,977		
Total assets	$1,129,650			$1,163,242		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Money market accounts	$ 113,602	$ 293	1.05%	$ 131,678	$ 269	0.83%
NOW accounts	281,052	505	0.73%	246,762	347	0.57%
Savings accounts	129,259	30	0.09%	188,358	32	0.07%
Time deposits	311,774	1,245	1.62%	309,187	906	1.19%
Short term borrowings				7,297	30	1.67%
Long-term debt	6,902	134	7.87%	13,205	176	5.41%
Total interest bearing liabilities	842,589	2,207	1.06%	896,487	1,760	0.80%
Non-interest bearing demand deposits	156,735			149,123		
Other liabilities	17,006			9,996		
Stockholders' equity	113,320			107,636		
Total liabilities and stockholders' equity	$1,129,650			$1,163,242		
Net interest income/spread		$ 9,830	3.67%		$ 11,493	4.25%
Net interest margin			3.86%			4.38%
Tax-equivalent adjustments:						
Loans		$ 61			$ 62	
Investments		18			22	
Total adjustments		$ 79			$ 84	

Provision for Loan Losses:

We evaluate the adequacy of the allowance for loan losses account on a quarterly basis utilizing our systematic analysis in accordance with procedural discipline. We take into consideration certain factors such as composition of the loan portfolio, volumes of nonperforming loans, volumes of net charge-offs, prevailing economic conditions and other relevant factors when determining the adequacy of the allowance for loan losses account. We make monthly provisions to the allowance for loan losses account in order to maintain the allowance at the appropriate level indicated by our evaluations. Based on our most current evaluation, we believe that the allowance is adequate to absorb any known and inherent losses in the portfolio as of March 31, 2019.

The provision for loan losses totaled $583 for the three months ended March 31, 2019, compared to $390 for the same period in 2018. The increase in the provision for loan losses in 2019 was due to recognition of net charge-offs and changes in local economic conditions.

Noninterest Income:

For the quarter ended March 31, noninterest income totaled $1,811 in 2019, a decrease of $142 from $1,953 in 2018. The overall reduction was primarily driven by decreases in service charges, fees and commission of $175, and mortgage banking income of $64. Service charge income experienced a decrease in NSF and overdraft income, while mortgage banking income decreased due to lower volume caused by higher mortgage origination rates and normal seasonal stagnation. Positive increases were made in both trust and wealth management as income for the first quarter of 2019 increased by $50 and $93, respectively, when compared against the first quarter of 2018. Additionally, net losses on the sale of investment securities of $42 were recognized in the first quarter of 2019 in order to dispose of certain investments with low yields and higher risk characteristics.

Noninterest Expenses:

In general, noninterest expense is categorized into three main groups: employee-related expenses, occupancy and equipment expenses and other expenses. Employee-related expenses are costs associated with providing salaries, including payroll taxes and benefits, to our employees. Occupancy and equipment expenses, the costs related to the maintenance of facilities and equipment, include depreciation, general maintenance and repairs, real estate taxes, lease expense and utility costs. Other expenses include general operating expenses such as advertising, contractual services, insurance, including FDIC assessment, other taxes and supplies. Several of these costs and expenses are variable, while the remainder are fixed. We utilize budgets and other related strategies in an effort to control the variable expenses.

Noninterest expense increased $2,428, or 25.5%, to $11,964 for the three months ended March 31, 2019, from $9,536 for the same period last year. The majority of this increase relates to expenses related to an executive separation of service agreement. The net cost of operation of other real estate owned was $127 for the first quarter of 2019 versus a credit of $1 in the first quarter of 2018 as the Company continues to reduce its holdings in other real estate owned. Other expenses increased $172, or 6.0% to $3,044 for the first quarter of 2019 from $2,872 for the same period last year. Offsets to the overall increase in noninterest expense were realized through reduced costs in net occupancy and equipment of $33, and in the amortization expense of intangible assets of $27 when comparing the first quarter of 2019 to the first quarter of 2018.

Income Taxes:

We recorded an income tax benefit of $298 for the three months ended March 31, 2019, and income tax expense of $625 for the three months ended March 31, 2018.

Riverview Financial Corporation

Item 3. Quantitative And Qualitative Disclosures about Market Risk

Not applicable to a smaller reporting company.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

At March 31, 2019, the end of the period covered by this Quarterly Report on Form 10-Q, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Based upon that evaluation, the CEO and CFO concluded that the disclosure controls and procedures, at March 31, 2019, were effective to provide reasonable assurance that information required to be disclosed in the Company's reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that information required to be disclosed in such reports is accumulated and communicated to the CEO and CFO to allow timely decisions regarding required disclosure.

(b) Changes in internal control.

There were no changes made in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

In the opinion of the Company, after review with legal counsel, there are no proceedings pending to which the Company is a party or to which its property is subject, which, if determined adversely to the Company, would have a material effect on the consolidated results of operations or financial condition. There are no proceedings pending other than ordinary, routine litigation incident to the business of the Company. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Company by governmental authorities.

Item 1A. Risk Factors

Not required for smaller reporting companies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits.

The following Exhibits are incorporated by reference hereto:

31.1	Section 302 Certification of the Chief Executive Officer (Pursuant to Rule 13a-14(a)/15d-14(a)).
31.2	Section 302 Certification of the Chief Financial Officer (Pursuant to Rule 13a-14(a)/15d-14(a)).
32.1	Chief Executive Officer's §1350 Certification (Pursuant to Rule 13a-14(b)/15d-14(b)).
32.2	Chief Financial Officer's §1350 Certification (Pursuant to Rule 13a-14(b)/15d-14(b)).
101	Interactive Data File (XBRL).

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Brett D. Fulk
Brett D. Fulk
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 9, 2019

By: /s/ Scott A. Seasock
Scott A. Seasock
Chief Financial Officer
(Principal Financial Officer)

Date: May 9, 2019

(Back To Top)

Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

Riverview Financial Corporation

CERTIFICATION

I, Brett D. Fulk certify that:

1. I have reviewed this quarterly report on Form 10-Q of Riverview 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 report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

(d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation, of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

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

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

Date: May 9, 2019

By: /s/ Brett D. Fulk
Brett D. Fulk
President and Chief Executive Officer

(Back To Top)

Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

Riverview Financial Corporation

CERTIFICATION

I, Scott A. Seasock certify that:

1. I have reviewed this quarterly report on Form 10-Q of Riverview 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 report;

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

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

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: May 9, 2019

By: /s/ Scott A. Seasock
Scott A. Seasock
Chief Financial Officer

(Back To Top)

Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

Riverview Financial Corporation

CHIEF EXECUTIVE OFFICER
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), I, Brett D. Fulk, Chief Executive Officer of Riverview Financial Corporation (the "Company"), hereby certify that, to the best of my knowledge, the Company's Form 10-Q for the

quarter ended March 31, 2019 (the "Report"):

1. fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the quarter ended March 31, 2019.

Date: May 9, 2019

By: /s/ Brett D. Fulk
Brett D. Fulk
President and Chief Executive Officer

(Back To Top)

Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

Riverview Financial Corporation

CHIEF FINANCIAL OFFICER
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), I, Scott A. Seasock, Chief Financial Officer of Riverview Financial Corporation (the "Company"), hereby certify that, to the best of my knowledge, the Company's Form 10-Q for the quarter ended March 31, 2019 (the "Report"):

1. fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the quarter ended March 31, 2019.

Date: May 9, 2019

By: /s/ Scott A. Seasock
Scott A. Seasock
Chief Financial Officer

(Back To Top)