Section 1: 10-Q (10-Q)

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 June 30, 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 **(State of incorporation)**	**38-3917371** **(IRS Employer Identification Number)**
3901 North Front Street, Harrisburg, PA **(Address of principal executive offices)**	**17110** **(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: 9,167,700 at July 30, 2019.

RIVERVIEW FINANCIAL CORPORATION
FORM 10-Q

For the Quarter Ended June 30, 2019

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

	June 30, 2019	December 31, 2018
Assets:		
Cash and due from banks	$ 11,354	$ 16,708
Interest-bearing deposits in other banks	29,621	37,108
Investment securities available-for-sale	100,254	104,677
Loans held for sale	170	637
Loans, net	889,305	893,184
Less: allowance for loan losses	7,002	6,348
Net loans	882,303	886,836
Premises and equipment, net	18,144	18,208
Accrued interest receivable	2,870	3,010
Goodwill	24,754	24,754
Intangible assets	3,121	3,509
Other assets	47,607	42,156
Total assets	$1,120,198	$ 1,137,603
Liabilities:		
Deposits:		
Noninterest-bearing	$ 160,407	$ 162,574
Interest-bearing	819,293	842,019
Total deposits	979,700	1,004,593
Short-term borrowings		
Long-term debt	6,932	6,892
Accrued interest payable	445	484
Other liabilities	17,443	11,724
Total liabilities	1,004,520	1,023,693
Stockholders' equity:		
Common stock: no par value, authorized 20,000,000 shares; June 30, 2019, issued and outstanding 9,167,670 shares; December 31, 2018, issued and outstanding 9,121,555 shares	101,644	101,134
Capital surplus	304	332
Retained earnings	13,978	15,063
Accumulated other comprehensive loss	(248)	(2,619)
Total stockholders' equity	115,678	113,910
Total liabilities and stockholders' equity	$1,120,198	$ 1,137,603

See notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
June 30,	**2019**	**2018**	**2019**	**2018**
Interest income:				
Interest and fees on loans:				
Taxable	$ 11,680	$ 11,226	$ 22,368	$ 23,467
Tax-exempt	233	235	463	469
Interest and dividends on investment securities available-for-sale:				
Taxable	732	542	1,472	1,065
Tax-exempt	47	81	116	163
Dividends				
Interest on interest-bearing deposits in other banks	216	101	447	180
Interest on federal funds sold		10		20
Total interest income	12,908	12,195	24,866	25,364
Interest expense:				
Interest on deposits	2,099	1,723	4,172	3,277
Interest on short-term borrowings				30
Interest on long-term debt	131	192	265	368
Total interest expense	2,230	1,915	4,437	3,675
Net interest income	10,678	10,280	20,429	21,689
Provision for loan losses	618		1,201	390
Net interest income after provision for loan losses	10,060	10,280	19,228	21,299
Noninterest income:				
Service charges, fees and commissions	1,315	1,651	2,368	2,879
Commission and fees on fiduciary activities	281	235	541	445
Wealth management income	236	219	483	373
Mortgage banking income	100	189	206	359
Bank owned life insurance investment income	194	199	381	390
Net gain (loss) on sale of investment securities available-for-sale		40	(42)	40
Total noninterest income	2,126	2,533	3,937	4,486
Noninterest expense:				
Salaries and employee benefits expense	5,830	5,221	13,340	10,543
Net occupancy and equipment expense	1,044	1,012	2,133	2,134
Amortization of intangible assets	194	220	388	441
Net cost (benefit) of operation of other real estate owned	(92)	2	35	1
Other expenses	3,508	2,953	6,552	5,825
Total noninterest expense	10,484	9,408	22,448	18,944
Income before income taxes	1,702	3,405	717	6,841
Income tax expense (benefit)	268	618	(30)	1,243
Net income	1,434	2,787	747	5,598
Other comprehensive income:				
Unrealized gain (loss) on investment securities available-for-sale	1,936	112	2,959	(963)
Reclassification adjustment for net (gain) loss on sale of investment securities available-for-sale included in net income (loss)		(40)	42	(40)
Other comprehensive income (loss)	1,936	72	3,001	(1,003)
Income tax expense (benefit) related to other comprehensive income	406	15	630	(210)
Other comprehensive income (loss), net of income taxes	1,530	57	2,371	(793)
Comprehensive income	$ 2,964	$ 2,844	$ 3,118	$ 4,805
Per share data:				
Net income:				
Basic	$ 0.16	$ 0.31	$ 0.08	$ 0.62
Diluted	$ 0.16	$ 0.31	$ 0.08	$ 0.62
Average common shares outstanding:				
Basic	9,160,290	9,089,011	9,151,850	9,084,054
Diluted	9,172,992	9,134,248	9,167,409	9,136,004

See notes to consolidated financial statements.

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

For the six months ended June 30,	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			747		747
Other comprehensive income, net of income taxes				2,371	2,371
Compensation cost of option grants					
Issuance under ESPP, 401k and Dividend Reinvestment plans: 27,984 shares	316				316
Exercise of stock options: 18,131 shares	194	(28)			166
Dividends declared, $0.20 per share			(1,832)		(1,832)
Balance, June 30, 2019	$ 101,644	$ 304	$ 13,978	$ (248)	$115,678
Balance, January 1, 2018	$ 100,476	$ 423	$ 6,936	$ (1,579)	$106,256
Net income			5,598		5,598
Other comprehensive income (loss), net of income taxes				(793)	(793)
Compensation cost of option grants		1			1
Issuance under ESPP, 401k and Dividend Reinvestment plans: 20,862 shares	265				265
Exercise of stock options: 4,761 shares	49				49
Dividends declared, $0.10 per shares			(909)		(909)
Balance, June 30, 2018	$ 100,790	$ 424	$ 11,625	$ (2,372)	$110,467

For the three months ended June 30,	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, April 1, 2019	$ 101,500	$ 307	$ 13,461	$ (1,778)	$113,490
Net income			1,434		1,434
Other comprehensive income, net of income taxes				1,530	1,530
Compensation cost of option grants					
Issuance under ESPP, 401k and Dividend Reinvestment plans: 12,761 shares	141				141
Exercise of stock options: 310 shares	3	(3)			
Dividends declared, $0.10 per share			(917)		(917)
Balance, June 30, 2019	$ 101,644	$ 304	$ 13,978	$ (248)	$115,678
Balance, April 1, 2018	$ 100,660	$ 422	$ 9,747	$ (2,429)	$108,400
Net income			2,787		2,787
Other comprehensive income (loss), net of income taxes				57	57
Compensation cost of option grants		2			2
Issuance under ESPP, 401k and Dividend Reinvestment plans: 10,709 shares	130				130
Exercise of stock options:					
Dividends declared, $0.10 per shares			(909)		(909)
Balance, June 30, 2018	$ 100,790	$ 424	$ 11,625	$ (2,372)	$110,467

See notes to consolidated financial statements.

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

For the Six Months Ended June 30,	2019	2018
Cash flows from operating activities:		
Net income	$ 747	$ 5,598
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of premises and equipment	589	619
Provision for loan losses	1,201	390
Stock based compensation		1
Net amortization of investment securities available-for-sale	399	402
Net cost of operation of other real estate owned	35	1
Net (gain) loss on sale of investment securities available-for-sale	42	(40)
Amortization of purchase adjustment on loans	(1,495)	(2,613)
Amortization of intangible assets	388	441
Deferred income taxes	(111)	1,072
Proceeds from sale of loans originated for sale	7,599	13,337
Net gain on sale of loans originated for sale	(206)	(359)
Loans originated for sale	(6,926)	(13,597)
Bank owned life insurance investment income	(381)	(390)
Net change in:		
Accrued interest receivable	140	451
Other assets	(1,169)	60
Accrued interest payable	(39)	(19)
Other liabilities	1,107	(1,095)
Net cash provided by operating activities	1,920	4,259
Cash flows from investing activities:		
Investment securities available-for-sale:		
Purchases	(10,485)	(6,839)
Proceeds from repayments	8,728	5,942
Proceeds from sales	8,740	4,825
Proceeds from the sale of other real estate owned	627	196
Net decrease in restricted equity securities	119	146
Net decrease (increase) in loans	4,800	18,351
Purchases of premises and equipment	(1,065)	(530)
Purchase of bank owned life insurance	(22)	(21)
Net cash provided by investing activities	11,442	22,070
Cash flows from financing activities:		
Net decrease in deposits	(24,893)	(8,758)
Net decrease in short-term borrowings		(6,000)
Repayment of long-term debt		(142)
Proceeds from long-term debt	40	
Issuance under ESPP, 401k and DRP plans	316	265
Proceeds from exercise of stock options	166	49
Cash dividends paid	(1,832)	(909)
Net cash used in financing activities	(26,203)	(15,495)
Net increase (decrease) in cash and cash equivalents	(12,841)	10,834
Cash and cash equivalents—beginning	53,816	25,786
Cash and cash equivalents—ending	$ 40,975	$ 36,620
Supplemental disclosures:		
Cash paid during the period for:		
Interest	$ 4,476	$ 3,694
Income taxes	$	$
Noncash items from operating activities:		
Operating lease right-of-use assets and liabilities	$ 4,612	$
Noncash items from investing activities:		
Transfer of owned properties to available for sale	$ 540	$
Noncash items from financing activities:		
Other real estate acquired in settlement of loans	$ 27	$ 51

See notes to consolidated financial statements.

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 30 full service offices and three 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, Cumberland, Dauphin, Huntingdon, Lebanon, Lehigh, 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 with 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 and six months ended as of June 30, 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.

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. In May 2019, the FASB issued ASU 2019-05 "Financial Instruments-Credit Losses (Topic 326)-Targeted Transition Relief" which amends ASU 2016-13 to allow companies to irrevocably elect, upon adoption of ASU 2016-13, the fair value option on financial instruments that were previously recorded at amortized cost and are within the scope of ASC 326-20 if the instruments are eligible for the fair value option under ASC 825-10. The fair value option election does not apply to held-to-maturity debt securities. Entities are required to make this election on an instrument-by-instrument basis. 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 July 2019, the FASB tentatively decided to delay the effective date for small reporting public companies to interim and annual reporting periods beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The Company currently expects as of January 1, 2023 to recognize a one-time cumulative effect adjustment to increase the ALLL with an offsetting reduction to the retained earnings component of equity. The effective date is subject to final approval by FASB.

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 June 30, 2019 and December 31, 2018 is as follows:

	June 30, 2019	December 31, 2018
Net unrealized gain (loss) on investment securities available-for-sale	$ 818	$ (2,183)
Income tax expense (benefit)	172	(458)
Net of income taxes	646	(1,725)
Benefit plan adjustments	(1,132)	(1,132)
Income tax benefit	(238)	(238)
Net of income taxes	(894)	(894)
Accumulated other comprehensive loss	$ (248)	$ (2,619)

Other comprehensive income (loss) and related tax effects for the three and six months ended June 30, 2019 and 2018 is as follows:

Three months ended June 30,	2019	2018
Unrealized gain on investment securities available-for-sale	$1,936	$112
Net gain on the sale of investment securities available-for-sale(1)		(40)
Other comprehensive income before taxes	1,936	72
Income tax expense	406	15
Other comprehensive income	$1,530	$ 57

Six months ended June 30,	2019	2018
Unrealized gain (loss) on investment securities available-for-sale	$2,959	$ (963)
Net (gain) loss on the sale of investment securities available-for-sale[1]	42	(40)
Other comprehensive income (loss) before taxes	3,001	(1,003)
Income tax expense (benefit)	630	(210)
Other comprehensive income (loss)	$2,371	$ (793)

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

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 and six months ended June 30, 2019 and 2018:

Three months ended June 30,	2019	2018
Numerator:		
Net income (loss)	$ 1,434	$ 2,787
Denominator:		
Basic	9,160,290	9,089,011
Dilutive options	12,702	45,237
Diluted	9,172,992	9,134,248
Earnings per share:		
Basic	$ 0.16	$ 0.31
Diluted	$ 0.16	$ 0.31

Six months ended June 30,	2019	2018
Numerator:		
Net income (loss)	$ 747	$ 5,598
Denominator:		
Basic	9,151,850	9,084,054
Dilutive options	15,559	51,950
Diluted	9,167,409	9,136,004
Earnings per share:		
Basic	$ 0.08	$ 0.62
Diluted	$ 0.08	$ 0.62

For the three and six months ended June 30, 2019, there were 43,350 outstanding stock options that were excluded from the dilutive earnings per share calculation. None of the outstanding stock options for the three and six months ended June 30, 2018 were excluded from the diluted earnings per share calculation because their effect was antidilutive.

4. Investment securities:

The amortized cost and fair value of investment securities available-for-sale aggregated by investment category at June 30, 2019 and December 31, 2018 are summarized as follows:

June 30, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipals:				
Taxable	$ 30,754	$ 590	$ 11	$ 31,333
Tax-exempt	5,370	64		5,434
Mortgage-backed securities:				
U.S. Government agencies	28,669	449	3	29,115
U.S. Government-sponsored enterprises	25,135	280	78	25,337
Corporate debt obligations	9,508	31	504	9,035
Total	$ 99,436	$ 1,414	$ 596	$100,254

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 June 30, 2019, is summarized as follows:

June 30, 2019	Fair Value
Within one year	$ 116
After one but within five years	1,859
After five but within ten years	12,267
After ten years	31,560
	45,802
Mortgage-backed securities	54,452
Total	$100,254

Securities with a fair value of $68,975 and $71,797 at June 30, 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 June 30, 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 June 30, 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	
June 30, 2019	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
State and municipals:						
Taxable	$	$	$ 3,471	$ 11	$ 3,471	$ 11
Tax-exempt						
Mortgage-backed securities:						
U.S. Government agencies	451	1	785	2	1,236	3
U.S. Government-sponsored enterprises			4,082	78	4,082	78
Corporate debt obligation			6,996	504	6,996	504
Total	$ 451	$ 1	$15,334	$ 595	$15,785	$ 596

	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 18 investment securities, consisting of five taxable state and municipal obligations, 10 mortgage-backed securities, and three corporate debt obligations that were in unrealized loss positions at June 30, 2019. Of these securities, five taxable state and municipal obligation, nine mortgage-backed securities and three 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 June 30, 2019. There was no OTTI recognized for the three and six months ended June 30, 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 June 30, 2019 and December 31, 2018 are summarized as follows. Net deferred loan costs were $1,069 and $1,026 at June 30, 2019 and December 31, 2018.

	June 30, 2019	December 31, 2018
Commercial	$113,844	$ 122,919
Real estate:		
Construction	48,978	39,556
Commercial	504,553	497,597
Residential	212,053	221,115
Consumer	9,877	11,997
Total	$889,305	$ 893,184

The changes in the allowance for loan losses account by major classification of loan for the three and six months ended June 30, 2019 and 2018 are summarized as follows:

June 30, 2019	Commercial	Construction	Commercial	Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning Balance, April 1, 2019	$ 1,023	$ 281	$ 3,459	$ 1,566	$ 157	$	$6,486
Charge-offs	(13)			(20)	(109)		(142)
Recoveries	6		1	2	31		40
Provisions	101	210	131	101	75		618
Ending balance	$ 1,117	$ 491	$ 3,591	$ 1,649	$ 154	$	$7,002

		Real Estate					
June 30, 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	(389)			(20)	(253)		(662)
Recoveries	11		2	3	99		115
Provisions	333	87	291	380	258	(148)	1,201
Ending balance	$ 1,117	$ 491	$ 3,591	$ 1,649	$ 154	$	$7,002

		Real Estate					
June 30, 2018	Commercial	Construction	Commercial	Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning Balance, April 1, 2018	$ 816	$ 384	$ 3,458	$ 1,179	$ 32	$ 646	$6,515
Charge-off	(93)			(10)	(63)		(166)
Recoveries	5		2	20	25		52
Provisions	298	(135)	146	106	42	(457)	
Ending balance	$ 1,026	$ 249	$ 3,606	$ 1,295	$ 36	$ 189	$6,401

		Real Estate					
June 30, 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	(170)			(60)	(162)		(392)
Recoveries	8		4	21	64		97
Provisions	(18)	(130)	639	(6)	97	(192)	390
Ending balance	$ 1,026	$ 249	$ 3,606	$ 1,295	$ 36	$ 189	$6,401

The allocation of the allowance for loan losses and the related loans by major classifications of loans at June 30, 2019 and December 31, 2018 is summarized as follows:

June 30, 2019	Commercial	Construction	Real Estate Commercial	Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Ending balance	$ 1,117	$ 491	$ 3,591	$ 1,649	$ 154	$	$ 7,002
Ending balance: individually evaluated for impairment	103		92	50			245
Ending balance: collectively evaluated for impairment	1,014	491	3,499	1,599	154		6,757
Ending balance: purchased credit impaired loans	$	$	$	$	$	$	$
Loans receivable:							
Ending balance	$ 113,844	$ 48,978	$ 504,553	$ 212,053	$ 9,877	$	$889,305
Ending balance: individually evaluated for impairment	879		1,474	2,132			4,485
Ending balance: collectively evaluated for impairment	112,944	48,978	499,958	209,675	9,877		881,432
Ending balance: purchased credit impaired loans	$ 21	$	$ 3,121	$ 246	$	$	$ 3,388

December 31, 2018	Commercial	Construction	Real Estate 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 June 30, 2019 and December 31, 2018:

June 30, 2019	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial	$101,234	$ 7,981	$ 4,629		$113,844
Real estate:					
Construction	48,814	164			48,978
Commercial	476,590	9,678	18,285		504,553
Residential	207,925	2,036	2,092		212,053
Consumer	9,877				9,877
Total	$844,440	$ 19,859	$ 25,006		$889,305

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

The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of June 30, 2019 and December 31, 2018. Purchase credit impaired ("PCI") loans are excluded from the aging and nonaccrual loan schedules.

	Accrual Loans						
June 30, 2019	**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	$ 199	$	$	$ 199	$112,849	$ 775	$ 113,823
Real estate:							
Construction	10			10	48,968		48,978
Commercial	1,044			1,044	499,694	694	501,432
Residential	1,097	141	25	1,263	209,848	696	211,807
Consumer	43	11	27	81	9,796		9,877
Total	$ 2,393	$ 152	$ 52	$ 2,597	$881,155	$ 2,165	$ 885,917
Purchased credit impaired loans							3,388
Total Loans							$ 889,305

	Accrual Loans						
December 31, 2018	**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 and six months ended June 30, 2019 and 2018, and as of and for the year ended, December 31, 2018 by major loan classification:

June 30, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	This Quarter Average Recorded Investment	This Quarter Interest Income Recognized	Year-to-Date Average Recorded Investment	Year-to-Date Interest Income Recognized
With no related allowance:							
Commercial	$ 125	$ 125	$	$ 157	$ 485	$ 163	$ 508
Real estate:							
Construction				43		43	
Commercial	4,222	4,222		4,240	104	4,255	204
Residential	2,201	2,201		2,209	34	2,276	125
Consumer							
Total	6,548	6,548		6,649	623	6,737	837
With an allowance recorded:							
Commercial	774	774	103	808		926	
Real estate:							
Construction							
Commercial	373	373	92	372	4	413	8
Residential	178	316	50	179	2	180	3
Consumer							
Total	1,325	1,463	245	1,359	6	1,519	11
Commercial	899	899	103	965	485	1,089	508
Real estate:							
Construction				43		43	
Commercial	4,595	4,595	92	4,612	108	4,668	212
Residential	2,379	2,517	50	2,388	36	2,456	128
Consumer							
Total	$ 7,873	$ 8,011	$ 245	$ 8,008	$ 629	$ 8,256	$ 848

December 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	For the Year Ended Average Recorded Investment	For the Year Ended 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

June 30, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	This Quarter Average Recorded Investment	This Quarter Interest Income Recognized	Year-to-Date Average Recorded Investment	Year-to-Date Interest Income Recognized
With no related allowance:							
Commercial	$ 366	$ 366	$	$ 700	$ 19	$ 909	$ 372
Real estate:							
Construction							
Commercial	6,978	6,978		7,531	335	8,134	1,370
Residential	3,017	3,085		3,085	58	3,168	137
Consumer							
Total	10,361	10,429		11,316	412	12,211	1,879
With an allowance recorded:							
Commercial	832	832	58	969	1	705	3
Real estate:							
Construction							
Commercial	531	531	76	533	1	534	7
Residential	185	323	42	186	1	186	3
Consumer							
Total	1,548	1,686	176	1,688	3	1,425	13
Commercial	1,198	1,198	58	1,669	20	1,614	375
Real estate:							
Construction							
Commercial	7,509	7,509	76	8,064	336	8,668	1,377
Residential	3,202	3,408	42	3,271	59	3,354	140
Consumer							
Total	$ 11,909	$ 12,115	$ 176	$ 13,004	$ 415	$ 13,636	$ 1,892

For the three and six months ended June 30, interest income related to impaired loans, would have been $25 and $85 in 2019 and $9 and $56 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 $2,753 at June 30, 2019, $2,925 at December 31, 2018 and $4,804 at June 30, 2018.

There were no loans modified as troubled debt restructuring during the second quarter of 2019 and one loan modified during the six months ended June 30, 2019. There were no loans modified as troubled debt restructuring for the three and six months ended June 30, 2018.

During the three months ended June 30, 2019, there were no defaults on loans restructured and one default on a restructured loan totaling $223 during the six months ended June 30, 2019. During the three months ended June 30, 2018, there was one default on loans restructured totaling $228 and six defaults on loans restructured totaling $1,474 during the six months ended June 30, 2018.

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.

The unpaid principal balances and the related carrying amount of acquired loans as of June 30, 2019 and December 31, 2018 were as follows:

	June 30, 2019	December 31, 2018
Credit impaired purchased loans evaluated individually for incurred credit losses:		
Outstanding balance	$ 5,850	$ 7,491
Carrying Amount	3,388	3,825
Other purchased loans evaluated collectively for incurred credit losses:		
Outstanding balance	279,003	315,013
Carrying Amount	278,869	314,328
Total Purchased Loans:		
Outstanding balance	284,853	322,504
Carrying Amount	$282,257	$ 318,153

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Balance—beginning of period	$ 430	$ 1,655	$ 579	$ 2,129
Accretion recognized during the period	(591)	(411)	(774)	(1,854)
Net reclassification from non-accretable to accretable	466	195	500	1,164
Balance—end of period	$ 305	$ 1,439	$ 305	$ 1,439

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 June 30, 2019, totaled $179,115 consisting of $98,651 in commitments to extend credit, $74,498 in unused portions of lines of credit and $5,966 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 June 30, 2019 and December 31, 2018 are summarized as follows:

	June 30, 2019	December 31, 2018
Other real estate owned	$ 86	$ 721
Bank owned life insurance	30,265	29,862
Restricted equity securities	935	1,054
Deferred tax assets	5,365	5,884
Lease right-of-use assets	4,205	
Other assets	6,751	4,635
Total	$ 47,607	$ 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 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.

On June 30, 2019, the Company leased 14 of its 33 locations. The Company's lease ROU assets and related lease liabilities were $4,205 and $4,223, 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 three and six months ended June 30, 2019, operating lease cost totaled $188 and $335, respectively.

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

	Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 273
ROU assets obtained in exchange for lease liabilities	$ 4,612
Weighted average remaining lease term—operating leases, in years	10.65
Weighted average discount rate—operating leases	3.07%

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	$ 384
2020	742
2021	715
2022	635
2023	445
Thereafter	2,232
Total lease payments	5,153
Less imputed interest	(930)
	$4,223

As of June 30, 2019, the Company entered into two new lease arrangements. The combined lease ROU assets and related lease liabilities were respectively, $893.

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 June 30, 2019 and December 31, 2018 are summarized as follows:

		Fair Value Measurement Using		
June 30, 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	$ 31,333		$ 31,333	
Tax-exempt	5,434		5,434	
Mortgage-backed securities:				
U.S. Government agencies	29,115		29,115	
U.S. Government-sponsored enterprises	25,337		25,337	
Corporate debt obligations	9,035		9,035	
Total	$100,254		$ 100,254	

		Fair Value Measurement Using		
December 31, 2018	**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	$ 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 June 30, 2019 and December 31, 2018 are summarized as follows:

June 30, 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	$ 86			$ 86
Impaired loans, net of related allowance	1,080			1,080
Total	$ 1,166			$ 1,166

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 June 30, 2019 and December 31, 2018

	Quantitative Information about Level 3 Fair Value Measurements			
June 30, 2019	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Other real estate owned	$ 86	Appraisal of collateral	Appraisal adjustments	0.0% to 31.5% (31.1)%
			Liquidation expenses	0.0% to 10.0% (7.6)%
Impaired loans	$ 1,080	Appraisal of collateral	Appraisal adjustments	0.0% to 10.0% (1.9)%
			Liquidation expenses	0.0% to 25.0% (11.2)%

	Quantitative Information about Level 3 Fair Value Measurements			
December 31, 2018	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
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 June 30, 2019 and December 31, 2018 and their placement within the fair value hierarchy are as follows:

June 30, 2019	Carrying Amount	Fair Value	Fair Value Hierarchy: 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	$ 40,975	$ 40,975	$ 40,975		
Investment securities	100,254	100,254		$ 100,254	
Loans held for sale	170	170		170	
Net loans[1]	882,303	868,262			$ 868,262
Accrued interest receivable	2,870	2,870		549	2,321
Financial liabilities:					
Deposits	$ 979,700	$980,040		$ 980,040	
Long-term debt	6,932	6,932		6,932	
Accrued interest payable	445	445		445	

December 31, 2018	Carrying Amount	Fair Value	Fair Value Hierarchy: 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 June 30, 2019 and December 31, 2018 was measured using an exit price notion.

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, safe 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 and six months ended June 30, 2019 and 2018.

	Three Months Ended		Six Months Ended	
June 30,	**2019**	**2018**	**2019**	**2018**
Noninterest Income:				
In-scope of Topic 606:				
Service charges, fees and commissions	$ 1,315	$ 1,651	$ 2,368	$ 2,879
Trust and asset management	517	454	1,024	818
Noninterest income (in-scope of Topic 606)	1,832	2,105	3,392	3,697
Noninterest income (out-of-scope of Topic 606)	294	428	545	789
Total noninterest income	$ 2,126	$ 2,533	$ 3,937	$ 4,486

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 June 30, 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.

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:

Economic growth measured as gross domestic product ("GDP"), the value of all goods and services produced in the United States, increased at an annualized rate of 2.1% in the second quarter of 2019. This represents a decrease from 3.1% recorded in the first quarter of 2019, reflecting negative contributions from business investment, exports, and both residential and nonresidential investment, but was partially offset by increases in personal consumption expenditures and government spending. The consumer price index for the last 12 months rose 1.6% ending June 30, 2019. Excluding the food and energy components, core consumer price index increased 2.1% over the latest twelve months, slightly above the Federal Open Market Committee ("FOMC") inflation benchmark of 2.0%. On July 31, 2019 the FOMC lowered the federal funds target rate range by 25 basis points to a range of 2.00% to 2.25%, citing global risk and soft business spending as the catalyst for the decision, while also acknowledging strength in the labor market and moderate growth in economic activity. Signals are mixed in regard to future rate changes. Accordingly, additional interest rate decreases may have an adverse impact on our net interest margin.

Review of Financial Position:

Total assets decreased $17,405 to $1,120,198 at June 30, 2019, from $1,137,603 at December 31, 2018. Loans, net, decreased to $889,305 at June 30, 2019, compared to $893,184 at December 31, 2018, a decrease of $3,879. Business lending, including commercial and commercial real estate loans, decreased $2,119, retail lending, including residential mortgages and consumer loans, decreased $11,182, while construction lending increased $9,422 during the six months ended June 30, 2019. Investment securities decreased $4,423, or 4.2%, in the six months ended June 30, 2019. Noninterest-bearing deposits decreased $2,167, while interest-bearing deposits decreased $22,726 during the six months ended June 30, 2019. Total stockholders' equity increased $1,768, or 1.6%, to $115,678 at June 30, 2019 from $113,910 at year-end 2018. For the six months ended June 30, 2019, total assets averaged $1,128,258, a decrease of $30,554 from $1,158,812 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 $100,254 at June 30, 2019, a decrease of $4,423, or 4.2%, from $104,677 at December 31, 2018. The decrease was a result of payments, prepayments, and sales of investments, partially offset by $10,485 securities acquired during the six months ended June 30, 2019.

For the six months ended June 30, 2019, the investment portfolio averaged $105,179, an increase of $12,865, compared to $92,314 for the same period last year. The tax-equivalent yield on the investment portfolio increased to 3.10% for the six months ended June 30, 2019, from 2.78% for the comparable period of 2018. The tax-equivalent yield on the investment portfolio for the second quarter of 2019 increased one basis point to 3.11% from 3.10% for the first quarter of 2019.

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 gain, included as a separate component of stockholders' equity of $646, net of deferred income taxes of $172 June 30, 2019. This compares with a net unrealized holding loss of $1,725, net of deferred income taxes of $458, at December 31, 2018. The change from an unrealized holding loss to an unrealized holding gain was a result of reductions in general market rates.

Loan Portfolio:

Loans, net, decreased to $889,305 at June 30, 2019 from $893,184 at December 31, 2018, a decrease of $3,879, or 0.4%. Business loans, including commercial and commercial real estate loans, decreased $2,119, or 0.3%, to $618,397 at June 30, 2019 from $620,516 at December 31, 2018. Retail loans, including residential real estate and consumer loans, decreased $11,182, or 4.8%, to $221,930 at June 30, 2019 from $233,112 at December 31, 2018. Construction lending increased $9,422, or 23.8%, to $48,978 at June 30, 2019 from $39,556 at December 31, 2018. Net loan repayments in the first six 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 six months ended June 30, 2019, loans, net averaged $887,431, a decrease of $52,128 compared to $939,559 for the same period in 2018. The tax-equivalent yield on the loan portfolio was 5.22% for the six months ended June 30, 2019, a six basis point increase from the comparable period last year. Loan accretion included in loan interest income in the first six months of 2019 related to acquired loans was $1,495. The tax-equivalent yield on the loan portfolio increased 39 basis points during the second quarter of 2019 to 5.41% from 5.02% in the first quarter of 2019. The primary cause for the increase in the tax-equivalent yield was primarily due to accretion on purchase loans with $1,056 realized in the second quarter of 2019 versus $439 for first quarter of 2019.

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.

Off-balance sheet commitments at June 30, 2019, totaled $179,115, consisting of $98,651 in commitments to extend credit, $74,498 in unused portions of lines of credit and $5,966 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 June 30, 2019 and 2018 are summarized as follows:

	2019	2018
United States	3.7%	4.0%
Pennsylvania	4.0%	4.6%
Berks County	3.8%	4.5%
Blair County	3.5%	4.8%
Centre County	3.0%	3.9%
Clearfield County	3.9%	5.1%
Cumberland County	3.0%	3.8%
Dauphin County	3.5%	4.4%
Huntingdon County	4.2%	5.2%
Lebanon County	3.3%	4.1%
Lehigh County	4.0%	4.9%
Lycoming County	4.0%	4.9%
Northumberland County	4.7%	5.1%
Perry County	3.0%	4.1%
Schuylkill County	4.5%	5.4%
Somerset County	4.0%	5.2%

Employment conditions in 2019 improved for the United States, the Commonwealth of Pennsylvania, and for all of the counties in which we have branch locations. The average unemployment rate for all our counties improved to 3.7% in 2019 from 4.7% in 2018. The lowest unemployment rate in 2019 for all the counties we serve was 3.0% which was in Perry County, Centre County and Cumberland County and the highest recorded rate being 4.7% in Northumberland 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 six months ended June 30, 2019. Nonperforming assets decreased $2,184, or 30.3%, to $5,018 at June 30, 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 0.56% at June 30, 2019 compared to 0.81% at December 31, 2018.

Loans on nonaccrual status decreased $564 to $2,165 at June 30, 2019 from $2,729 at December 31, 2018. The decrease in nonaccrual loans was due to decreases of $366 in commercial loans, $8 in commercial real estate loans and $190 in residential real estate loans. Accruing troubled debt restructured loans declined $198, to $2,715 at June 30, 2019 from $2,913 at December 31, 2018. Accruing loans past due 90 days or more decreased $787, while other real estate owned decreased $635 during the six months ended June 30, 2019.

Nonperforming assets decreased $3,371 to $5,018 at June 30, 2019 from $8,389 at June 30, 2018. Decreases in accruing troubled debt restructured loans, accruing loans past due 90 days or more and other real estate owned were partially offset by a slight increase in nonaccrual loans.

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 $654 to $7,002 at June 30, 2019, from $6,348 at the end of 2018. The increase in the allowance was a result of the provision for loan losses of $1,201 for the first six months of 2019 exceeding net charge-offs for the period. For the six months ended June 30, net charge-offs were $547, or 0.12%, of average loans outstanding in 2019 compared to $295, or 0.06%, of average loans outstanding for the same period in 2018.

Deposits:

We attract the majority of our deposits from within our 14-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 six months ended June 30, 2019, total deposits decreased to $979,700 from $1,004,593 at December 31, 2018. Noninterest-bearing transaction accounts decreased $2,167, while interest-bearing transaction accounts decreased $13,913 and time deposits decreased $8,813 in the six months ended June 30, 2019.

For the six months ended June 30, interest-bearing deposits averaged $832,327 in 2019 compared to $864,925 in 2018. The cost of interest-bearing deposits was 1.01% in 2019 compared to 0.76% in 2018. The cost of interest-bearing deposits increased one basis point comparing the second quarter of 2019 with the first quarter of 2019. Corresponding with recent FOMC actions, interest rates have increased from historic lows that existed for an extended period. All deposit rates have increased, although we anticipate a general stagnation in rates based on the most recent indications by the FOMC.

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 June 30, 2019 and December 31, 2018, we did not have any short-term borrowings outstanding. For the six months ended June 30, we did not utilize short-term borrowings in 2019, while short-term borrowings averaged $3,628 in 2018. The average cost of short-term borrowings was 1.67% in the six months ended June 30, 2018.

Long-term debt totaled $6,932 at June 30, 2019 as compared to $6,892 at December 31, 2018. For the six months ended June 30, long-term debt averaged $6,912 in 2019 and $13,164 in 2018. The reduction in the average balance was due to the paydown of $6,085 in borrowings in December of 2018. The average cost of long-term debt was 7.73% in the six months ended June 30, 2019 and 5.64% 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 not to lower short-term interest rates at a time when the yield curve is inverted, 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 1.58 at June 30, 2019. Given the recent posture of the FOMC and the potential for rates to decrease in the future, the focus of ALCO has been to lower our exposure to the effect of repricing assets.

The current position at June 30, 2019, indicates that the amount of RSA repricing within one year would exceed that of RSL, with declining rates causing a decrease in 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. Given an instantaneous and parallel shift in interest rates of plus and minus 100 basis points, our projected net interest income for the 12 months ending June 30, 2020, would increase 4.77% and decrease 6.49% 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 June 30, 2019. Our noncore funds at June 30, 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 June 30, 2019, our net noncore funding dependence ratio, the difference between noncore funds and short-term investments to long-term assets, was 0.97%, while our net short-term noncore funding ratio, noncore funds maturing within one-year, less short-term investments to assets equaled 1.61%. Comparatively, our net noncore dependence ratio was 0.65% while our net short-term noncore funding ratio was 1.73% at year-end. Comparative to peer levels our reliance on short-term noncore funds remains low.

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, decreased $12,841 during the six months ended June 30, 2019. Cash and cash equivalents increased $10,834 for the same period last year. For the six months ended June 30, 2019, we realized net cash inflows of $1,920 and $11,442 from operating and investing activities, and net cash outflows of $26,203 from financing activities. For the same period of 2018, we recognized net cash inflows of $4,259 from operating activities and $22,070 from investing activities, offset by net cash outflows of $15,495 from financing activities.

Operating activities provided net cash of $1,920 for the six months ended June 30, 2019 compared to providing $4,259 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 $11,442 for the six months ended June 30, 2019. For the comparable period in 2018, investing activities provided net cash of $22,070. For the six months ended June 30, 2019 and 2018, payments and prepayments on loans exceeding loan originations was the primary factor causing the net cash inflow from investing activities. Additional positive cash flow was generated in the investment portfolio by proceeds from repayments and sales being greater than purchases.

Financing activities utilized net cash of $26,203 for the six months ended June 30, 2019 and $15,495 for the same period last year. Deposit gathering is a predominant financing activity. However, during the six months ended June 30, deposits decreased $24,893 in 2019 and $8,758 in 2018. The payment of a cash dividends of $1,832 also impacted net cash from financing activities in 2019. The repayment of short-term borrowings of $6,000 increased the amount of the net cash utilized from financing activities for the first six months of 2018.

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 $115,678, or $12.62 per common share, at June 30, 2019, and $113,910, or $12.49 per common share, at December 31, 2018. The net increase in stockholders' equity in the six months ended June 30, 2019 was a result of the recognition of net income of $747, the issuance of common stock through Riverview's ESPP, 401k and dividend reinvestment plans of $316, the issuance of common stock related to the stock options exercised of $166 and the recognition of a change in other comprehensive income of $2,371, offset by the payout of cash dividends of $1,832.

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 June 30, 2019 and December 31, 2018:

June 30, 2019:	Actual		Minimum Regulatory Capital Ratios under Basel III (with 2.5% capital conservation buffer phase-in)			Well Capitalized under Basel III		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
Total risk-based capital (to risk-weighted assets)	$100,597	11.36%	$ 92,971	≥	10.50%	$ 88,544	≥	10.00%
Tier 1 capital (to risk-weighted assets)	93,522	10.56	75,262	≥	8.50	70,835	≥	8.00
Common equity tier 1 risk-based capital (to risk-weighted assets)	93,522	10.56	61,980	≥	7.00	57,553	≥	6.50
Tier 1 capital (to average total assets)	93,522	8.51	43,975	≥	4.00	54,969	≥	5.00

December 31, 2018:	Actual		Minimum Regulatory Capital Ratios under Basel III (with 1.875% capital conservation buffer phase-in)			Well Capitalized under Basel III		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
Total risk-based capital (to risk-weighted assets)	$100,001	11.42%	$ 86,443	≥	9.875%	$ 87,538	≥	10.00%
Tier 1 capital (to risk-weighted assets)	93,580	10.69	68,936	≥	7.875	70,030	≥	8.00
Common equity tier 1 risk-based capital (to risk-weighted assets)	93,580	10.69	55,805	≥	6.375	56,900	≥	6.50
Tier 1 capital (to average total assets)	93,580	8.37	44,733	≥	4.000	55,916	≥	5.00

Based on the most recent notification from the FDIC, the Bank was categorized as well capitalized at June 30, 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 net income of $747, or $0.08 per basic and diluted weighted average common share, for the six months ended June 30, 2019, compared to net income of $5,598, or $0.62 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 0.13% and 1.32% for the six months ended June 30, 2019. The reduction in net income recognized in 2019 was primarily attributable to recording a pre-tax expense of $2,218 related to a nonrecurring executive separation of service agreement charge and $456 of severance expense payable to employees that either retired or were separated from service due to branch network consolidations. In addition, in 2019 we recognized $1,118 less of accretion on acquired loans as compared to 2018 and recorded reduced interest income relating to lower loan volumes. The decline in loan volumes was largely 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, comprised of 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 2018, respectively.

For the six months ended June 30, tax-equivalent net interest income decreased $1,274 to $20,583 in 2019 from $21,857 in 2018. The decrease in tax-equivalent net interest income was primarily attributable to a net decline in average loans of $52,128. Overall, average earning assets decreased $12,142 less than the decline in average interest-bearing liabilities in comparing the first six months of 2019 with 2018. The tax-equivalent net interest margin for the six months ended June 30, was 4.03% in 2019 compared to 4.16% in 2018. The net interest spread decreased to 3.83% for the six months ended June 30, 2019 from 4.02% for the six months ended June 30, 2018. Loan accretion included in loan interest income in the first half of 2019 related to loans acquired from mergers was $1,495 resulting in an increase in the tax-equivalent loan interest yield of 34 basis points. For the same period in 2018 loan accretion income was $2,613, resulting in an increase in the tax-equivalent loan interest yield of 56 basis points.

For the six months ended June 30, 2019, tax-equivalent interest income decreased $512, to $25,020 from $25,532 for the six months ended June 30, 2018. A negative volume variance in interest income of $1,553 attributable to changes in the average balance of earning assets was offset by a $1,041 favorable rate variance due to increased yields on earning assets. Specifically, the decrease in interest income was primarily due to a reduction in average earning assets, which decreased $30,336 to $1,029,476 for the first six months of 2019 from $1,059,812 for the same period in 2018. The overall yield on earning assets, on a fully tax-equivalent basis, increased for the six months ended June 30, 2019 to 4.90% as compared to 4.86% for the six months ended June 30, 2018. This increase was a result of the impact of increased yields on all interest earning assets. Average loans decreased $52,128 comparing the first six months of 2019 and 2018, which caused the decrease in tax-equivalent interest income. However, the tax-equivalent yield on the loan portfolio increased to 5.22% for the six months ended June 30, 2019 compared to 5.16% for the same period last year. The increased yield was more than offset by a decline in loan volume causing tax-equivalent loan interest income to decline $1,107 comparing the six months ended June 30, 2019 and 2018. The yield earned on investments increased 32 basis points for the first half of 2019 to 3.10% from 2.78% for the first half of 2018 and resulted in higher tax-equivalent interest income of $222. Average investments increased to $105,179 for the six months ended June 30, 2019 compared to $92,314 for the same period in 2018. Overall tax-equivalent interest earned on investments was $1,619 for the six-month period ended June 30, 2019 compared to $1,271 for the same period in 2018.

Total interest expense increased $762 to $4,437 for the six months ended June 30, 2019 from $3,675 for the six months ended June 30, 2018. While there was a favorable volume variance, an unfavorable rate variance caused interest expenses to increase more as the cost of funds grew to 1.07% in 2019 from 0.84% in 2018. The average volume of interest-bearing liabilities decreased to $839,239 for the six months ended June 30, 2019, from $881,717 for the six months ended June 30, 2018. Average interest-bearing deposits decreased $32,598 to $832,327 for the first half of 2019 from $864,925 for the same period last year. The cost of interest-bearing deposits increased 25 basis points when comparing the first six months of 2019 and 2018.

For the three months ended June 30, tax-equivalent net interest income increased $389 to $10,753 in 2019 from $10,364 in 2018. The increase in tax-equivalent net interest income was primarily attributable to an improvement in the tax equivalent net interest margin. Average earning assets declined $3,204 less than the decline in average interest-bearing liabilities comparing the second quarters of 2019 and 2018. The tax-equivalent net interest margin for the three months ended June 30, was 4.20% in 2019 compared to 3.94% in 2018. The net interest spread increased to 4.00% for the three months ended June 30, 2019 from 3.78% for the three months ended June 30, 2018. Loan accretion included in loan interest income in the second quarter of 2019 related to acquired loans was $1,056, resulting in an increase in the tax-equivalent net interest margin of 30 basis points.

For the three months ended June 30, tax-equivalent interest income increased $704, to $12,983 in 2019 from $12,279 in 2018. A rate variance in interest income of $3,510 was attributable to an improvement in the yield on earning assets. The overall yield on earning assets, on a fully tax-equivalent basis, increased for the three months ended June 30, 2019 to 5.07% as compared to 4.67% for the three months ended June 30, 2018. This improvement was a result of the combined impact of higher interest rates and the effects of accretion on purchased loans. Average loans decreased $45,416 comparing the second quarters of 2019 and 2018. The tax-equivalent yield on the loan portfolio was 5.41% for the three months ended June 30, 2019 compared to 4.95% for the same period last year resulting in an increase of $451 in tax-equivalent interest income. The yield earned on investments increased 30 basis points for the second quarter of 2019 to 3.11% from 2.81% for the second quarter of 2018. This coupled with average investments increasing to $102,135 for the quarter ended June 30, 2019 compared to $91,845 for the same period in 2018, resulted in an increase in tax-equivalent interest income of $148. Overall tax-equivalent interest earned on investments was $792 for the three-month period ended June 30, 2019 compared to $644 for the same period in 2018.

Total interest expense increased $315 to $2,230 for the three months ended June 30, 2019 from $1,915 for the three months ended June 30, 2018. An unfavorable rate variance partially offset by a favorable volume variance caused interest expenses to increase. The average volume of interest bearing liabilities decreased to $835,925 for the three months ended June 30, 2019, from $867,110 for the three months ended June 30, 2018. Average interest-bearing deposits decreased $24,983 to $829,003 for the second quarter of 2019 from $853,986 for the same period last year. The cost of funds increased to 1.07% for the three months ended June 30, 2019 as compared to 0.89% for the same period in 2018.

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.

	Six months ended					
	June 30, 2019			June 30, 2018		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:						
Earning assets:						
Loans						
Taxable	$ 852,427	$ 22,368	5.29%	$ 902,798	$ 23,467	5.24%
Tax exempt	35,004	586	3.38%	36,761	594	3.26%
Investments						
Taxable	96,305	1,472	3.08%	77,007	1,065	2.79%
Tax exempt	8,874	147	3.34%	15,307	206	2.71%
Interest bearing deposits	36,866	447	2.45%	25,347	180	1.43%
Federal funds sold				2,592	20	1.56%
Total earning assets	1,029,476	25,020	4.90%	1,059,812	25,532	4.86%
Less: allowance for loan losses	6,457			6,483		
Other assets	105,239			105,483		
Total assets	$1,128,258			$1,158,812		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Money market accounts	$ 113,159	$ 566	1.01%	$ 121,988	$ 527	0.87%
NOW accounts	276,036	978	0.71%	262,185	738	0.57%
Savings accounts	131,797	66	0.10%	165,467	66	0.08%
Time deposits	311,335	2,562	1.66%	315,285	1,946	1.24%
Short term borrowings				3,628	30	1.67%
Long-term debt	6,912	265	7.73%	13,164	368	5.64%
Total interest-bearing liabilities	839,239	4,437	1.07%	881,717	3,675	0.84%
Non-interest-bearing demand deposits	157,908			158,024		
Other liabilities	16,975			10,287		
Stockholders' equity	114,136			108,784		
Total liabilities and stockholders' equity	$1,128,258			$1,158,812		
Net interest income/spread		$ 20,583	3.83%		$ 21,857	4.02%
Net interest margin			4.03%			4.16%
Tax-equivalent adjustments:						
Loans		$ 123			$ 125	
Investments		31			43	
Total adjustments		$ 154			$ 168	

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 June 30, 2019.

The provision for loan losses totaled $1,201 for the six months ended June 30, 2019, compared to $390 in 2018. The increase in the provision for loan losses in 2019 was due to increasing qualitative factors related to changes in economic conditions. For the quarter ended June 30, the provision for loan losses was $618 in 2019 compared to no provision for the same period in 2018.

Noninterest Income:

For the six months ended June 30, noninterest income totaled $3,937 in 2019, a decrease of $549 from $4,486 in 2018. The overall reduction was primarily driven by decreases in service charges, fees and commission of $511, mortgage banking income of $153, and life insurance investment income of $9. Service charge income experienced a decrease in NSF and overdraft income, while mortgage banking income decreased due to lower origination volume. Positive increases were made in both trust and wealth management as income for the first half of 2019 increased by $96 and $110, respectively, when compared against the first six months of 2018. Additionally, net losses on the sale of investment securities of $42 were recognized in the first half of 2019 in order to dispose of certain investments with low yields and higher risk characteristics. This compares with a $40 net gain on the sale of investment securities recorded during the first six months of 2018.

For the quarter ended June 30, noninterest income totaled $2,126 in 2019, a decrease of $407 from $2,533 in 2018. The decrease in noninterest income for the quarter was due primarily to decreases in services charges, fees and commissions of $336, mortgage banking income of $89 and bank owned life insurance investment income of $5, offset by increases in wealth management income of $46 and trust income of $17. Also adding to the decrease for the quarter ended June 30 was a $40 gain from the sale of investment securities recorded in 2018 as compared with no gain recorded in 2019.

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, FDIC assessments, 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 $3,504, or 18.5%, to $22,448 for the six months ended June 30, 2019, from $18,944 for the same period last year. The majority of this increase is attributable to expenses related to an executive separation of service agreement and contractual payments due to retirements and severance. The net cost of operation of other real estate owned was $35 for the first half of 2019 versus $1 for the same period in 2018 as the Company continues to reduce its holdings in other real estate owned. Other expenses increased $727, or 12.5% to $6,552 for the first six months of 2019 from $5,825 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 $1, and in the amortization expense of intangible assets of $53 when comparing the first six months of 2019 to the first six months of 2018.

For the three months ended June 30, 2019, noninterest expense increased $1,076, to $10,484 from $9,408 for the same period last year. Salaries and employee benefit expense was $5,830 for the quarter ended June 30, 2019, an increase of $609 over the same period in 2018 and was caused by recognizing a nonrecurring expense of $456 for retirement and severance payments associate with staff eliminations related to planned branch closures. For the second quarter, other expenses increased to $3,508 in 2019 from $2,953 in 2018.

Income Taxes:

We recorded an income tax benefit of $30 for the six months ended June 30, 2019 as compared to a tax expense of $1,243 for the six months ended June 30, 2018. For the three months ended June 30, we recorded a tax expense of $268 in 2019 as compared with $618 in 2018.

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 June 30, 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 June 30, 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).

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: August 8, 2019

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

Date: August 8, 2019

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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: August 8, 2019 By: /s/ Brett D. Fulk

Brett D. Fulk
President and Chief Executive Officer

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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: August 8, 2019

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

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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, President and 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 June 30, 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 June 30, 2019.

Date: August 8, 2019

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

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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 June 30, 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 June 30, 2019.

Date: August 8, 2019

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

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