UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from ________ to ________

Commission File Number: 001-36522

Investar Holding Corporation
(Exact name of registrant as specified in its charter)

Louisiana	**27-1560715**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

7244 Perkins Road, Baton Rouge, Louisiana 70808
(Address of principal executive offices, including zip code)
(225) 227-2222
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date, is as follows: Common stock, $1.00 par value, 8,815,285 shares outstanding as of August 9, 2017.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

When included in this Quarterly Report on Form 10-Q, or in other documents that Investar Holding Corporation (the "Company") files with the Securities and Exchange Commission ("SEC") or in statements made by or on behalf of the Company, words like "may," "should," "could," "predict," "potential," "believe," "think," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would," "outlook" and similar expressions or the negative version of those words are intended to identify forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve a variety of risks and uncertainties that could cause actual results to differ materially from those described therein. The Company's forward-looking statements are based on assumptions and estimates that management believes to be reasonable in light of the information available at the time such statements are made. However, many of the matters addressed by these statements are inherently uncertain and could be affected by many factors beyond management's control. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements. These factors include, but are not limited to, the following, any one or more of which could materially affect the outcome of future events:

- business and economic conditions generally and in the financial services industry in particular, whether nationally, regionally or in the markets in which we operate;
- our ability to achieve organic loan and deposit growth, and the composition of that growth;
- changes (or the lack of changes) in interest rates, yield curves and interest rate spread relationships that affect our loan and deposit pricing;
- the extent of continuing client demand for the high level of personalized service that is a key element of our banking approach as well as our ability to execute our strategy generally;
- our dependence on our management team, and our ability to attract and retain qualified personnel;
- changes in the quality or composition of our loan or investment portfolios, including adverse developments in borrower industries or in the repayment ability of individual borrowers;
- inaccuracy of the assumptions and estimates we make in establishing reserves for probable loan losses and other estimates;
- the concentration of our business within our geographic areas of operation in Louisiana;
- concentration of credit exposure; and
- the ability to effectively integrate employees, customers, operations and branches from our recent acquisition of Citizens Bancshares, Inc. and its wholly-owned subsidiary, Citizens Bank.

These factors should not be construed as exhaustive. Additional information on these and other risk factors can be found in Item 1A. "Risk Factors" and Item 7. "Special Note Regarding Forward-Looking Statements" in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on any forward-looking statement as a prediction of future events. We expressly disclaim any obligation or undertaking to update our forward-looking statements, and we do not intend to release publicly any updates or changes in our expectations concerning the forward-looking statements or any changes in events, conditions or circumstances upon which any forward-looking statement may be based, except as required by law.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

INVESTAR HOLDING CORPORATION
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)

	June 30, 2017	December 31, 2016
	(Unaudited)	
ASSETS		
Cash and due from banks	$ 11,720	$ 9,773
Interest-bearing balances due from other banks	23,238	19,569
Federal funds sold	3	106
Cash and cash equivalents	**34,961**	**29,448**
Available for sale securities at fair value (amortized cost of $185,121 and $166,258, respectively)	183,584	163,051
Held to maturity securities at amortized cost (estimated fair value of $19,418 and $19,612, respectively)	19,460	20,091
Loans, net of allowance for loan losses of $7,320 and $7,051, respectively	925,640	886,375
Other equity securities	7,025	5,362
Bank premises and equipment, net of accumulated depreciation of $7,497 and $6,751, respectively	31,510	31,722
Other real estate owned, net	3,830	4,065
Accrued interest receivable	3,197	3,218
Deferred tax asset	2,343	2,868
Goodwill and other intangible assets, net	3,213	3,234
Bank owned life insurance	7,297	7,201
Other assets	3,466	2,325
Total assets	**$ 1,225,526**	**$ 1,158,960**
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 130,625	$ 108,404
Interest-bearing	764,200	799,383
Total deposits	**894,825**	**907,787**
Advances from Federal Home Loan Bank	109,285	82,803
Repurchase agreements	36,745	39,087
Subordinated debt, net of unamortized issuance costs	18,145	—
Junior subordinated debt	3,609	3,609
Other borrowings	—	1,000
Accrued taxes and other liabilities	12,121	11,917
Total liabilities	**1,074,730**	**1,046,203**
STOCKHOLDERS' EQUITY		
Preferred stock, no par value per share; 5,000,000 shares authorized	—	—
Common stock, $1.00 par value per share; 40,000,000 shares authorized; 8,815,119 and 7,101,851 shares issued and outstanding, respectively	8,815	7,102
Surplus	113,246	81,499
Retained earnings	29,644	26,227
Accumulated other comprehensive loss	(909)	(2,071)
Total stockholders' equity	**150,796**	**112,757**
Total liabilities and stockholders' equity	**$ 1,225,526**	**$ 1,158,960**

See accompanying notes to the consolidated financial statements.

INVESTAR HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
INTEREST INCOME				
Interest and fees on loans	$ 10,559	$ 9,781	$ 20,563	$ 19,266
Interest on investment securities	1,199	891	2,228	1,747
Other interest income	86	47	146	84
Total interest income	11,844	10,719	22,937	21,097
INTEREST EXPENSE				
Interest on deposits	1,827	1,763	3,680	3,278
Interest on borrowings	715	298	1,095	614
Total interest expense	2,542	2,061	4,775	3,892
Net interest income	9,302	8,658	18,162	17,205
Provision for loan losses	375	800	725	1,254
Net interest income after provision for loan losses	8,927	7,858	17,437	15,951
NONINTEREST INCOME				
Service charges on deposit accounts	96	88	193	185
Gain on sale of investment securities, net	109	144	215	224
Gain on sale of fixed assets, net	1	1,252	24	1,252
(Loss) gain on sale of other real estate owned, net	(10)	10	(5)	11
Gain on sale of loans, net	—	—	—	313
Servicing fees and fee income on serviced loans	378	537	801	1,128
Other operating income	227	225	458	430
Total noninterest income	801	2,256	1,686	3,543
Income before noninterest expense	9,728	10,114	19,123	19,494
NONINTEREST EXPENSE				
Depreciation and amortization	391	369	767	739
Salaries and employee benefits	4,109	3,890	8,059	7,763
Occupancy	245	242	509	478
Data processing	355	367	723	741
Marketing	119	102	147	214
Professional fees	231	375	463	654
Customer reimbursements	—	584	—	584
Acquisition expense	80	—	225	—
Other operating expenses	1,398	1,175	2,719	2,315
Total noninterest expense	6,928	7,104	13,612	13,488
Income before income tax expense	2,800	3,010	5,511	6,006
Income tax expense	877	1,005	1,724	2,011
Net income	$ 1,923	$ 2,005	$ 3,787	$ 3,995
EARNINGS PER SHARE				
Basic earnings per share	$ 0.22	$ 0.28	$ 0.48	$ 0.56
Diluted earnings per share	0.22	0.28	0.47	0.55
Cash dividends declared per common share	0.02	0.01	0.04	0.02

See accompanying notes to the consolidated financial statements.

INVESTAR HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
Net income	$ 1,923	$ 2,005	$ 3,787	$ 3,995
Other comprehensive income (loss):				
Unrealized gain (loss) on investment securities:				
Unrealized gain, available for sale, net of tax expense of $279, $408, $660 and $887, respectively	518	757	1,225	1,648
Reclassification of realized gain, net of tax expense of $38, $50, $75 and $78, respectively	(70)	(93)	(139)	(145)
Unrealized loss, transfer from available for sale to held to maturity, net of tax benefit of $0 for all respective periods	(1)	(1)	(1)	(2)
Fair value of derivative financial instruments:				
Change in fair value of interest rate swap designated as a cash flow hedge, net of tax (benefit) expense of ($23), ($109), $42 and ($351), respectively	(43)	(202)	77	(651)
Total other comprehensive income	404	461	1,162	850
Total comprehensive income	$ 2,327	$ 2,466	$ 4,949	$ 4,845

See accompanying notes to the consolidated financial statements.

INVESTAR HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Amounts in thousands, except share data)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2015	$ 7,264	$ 84,099	$ 18,650	$ (663)	$ 109,350
Surrendered shares	(4)	(61)	—	—	(65)
Shares repurchased	(222)	(3,251)	—	—	(3,473)
Options and warrants exercised	12	153	—	—	165
Dividends declared, $0.04 per share	—	—	(303)	—	(303)
Stock-based compensation	52	557	—	—	609
Net tax effect of stock-based compensation	—	2	—	—	2
Net income	—	—	7,880	—	7,880
Other comprehensive loss, net	—	—	—	(1,408)	(1,408)
Balance, December 31, 2016	$ 7,102	$ 81,499	$ 26,227	$ (2,071)	$ 112,757
Common stock issued in offering, net of direct costs of $1,991	1,624	30,885	—	—	32,509
Surrendered shares	(5)	(104)	—	—	(109)
Options and warrants exercised	50	617	—	—	667
Dividends declared, $0.04 per share	—	—	(370)	—	(370)
Stock-based compensation	44	342	—	—	386
Net tax effect of stock-based compensation	—	7	—	—	7
Net income	—	—	3,787	—	3,787
Other comprehensive income, net	—	—	—	1,162	1,162
Balance, June 30, 2017 (Unaudited)	$ 8,815	$ 113,246	$ 29,644	$ (909)	$ 150,796

See accompanying notes to the consolidated financial statements.

INVESTAR HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Six months ended June 30,	
	2017	**2016**
Cash flows from operating activities:		
Net income	$ 3,787	$ 3,995
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	767	739
Provision for loan losses	725	1,254
Amortization of purchase accounting adjustments	1	(27)
Provision for other real estate owned	—	7
Net amortization of securities	559	534
Gain on sale of securities, net	(215)	(224)
Gain on sale of fixed assets, net	(24)	(1,252)
Loss (gain) on sale of other real estate owned, net	5	(11)
Impairment of other real estate owned	183	—
FHLB stock dividend	(39)	(31)
Stock-based compensation	386	306
Deferred taxes	(101)	(2)
Net change in value of bank owned life insurance	(96)	(89)
Amortization of subordinated debt issuance costs	12	—
Loans held for sale:		
Originations	—	(495)
Proceeds from sales	—	23,837
Gain on sale of loans	—	(313)
Net change in:		
Accrued interest receivable	22	(9)
Other assets	(409)	166
Accrued taxes and other liabilities	(6)	5,272
Net cash provided by operating activities	5,557	33,657
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	19,049	8,418
Funds invested in securities available for sale	(49,561)	(52,263)
Proceeds from maturities, prepayments and calls of investment securities available for sale	11,338	7,425
Proceeds from maturities, prepayments and calls of investment securities held to maturity	596	701
Proceeds from redemption of other equity securities	2,000	—
Purchase of other equity securities	(3,624)	(1,505)
Net increase in loans	(39,991)	(61,598)
Proceeds from sales of other real estate owned	47	480
Proceeds from the sales of fixed assets	327	2,649
Purchases of fixed assets	(837)	(1,632)
Acquisition of trademark intangible	—	(100)
Purchase of bank owned life insurance	—	(3,500)
Purchase of other investments	(624)	(553)
Distributions from investments	12	—
Net cash used in investing activities	(61,268)	(101,478)
Cash flows from financing activities:		
Net (decrease) increase in customer deposits	(12,962)	129,837
Net decrease in repurchase agreements	(2,342)	(10,245)
Net increase (decrease) in short-term FHLB advances	15,000	(28,780)
Proceeds from long-term FHLB advances	15,000	—
Repayment of long-term FHLB advances	(3,518)	(5,118)
Cash dividends paid on common stock	(263)	(128)
Proceeds from public offering of common stock, net of issuance costs	32,509	—

Proceeds from stock options and warrants exercised	667	15
Payments to repurchase common stock	—	(1,592)
Proceeds from other borrowings	78	—
Repayment of other borrowings	(1,078)	—
Proceeds from subordinated debt, net of issuance costs	18,133	—
Net cash provided by financing activities	61,224	83,989
Net increase in cash and cash equivalents	5,513	16,168
Cash and cash equivalents, beginning of period	29,448	20,966
Cash and cash equivalents, end of period	$ 34,961	$ 37,134

See accompanying notes to the consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements of Investar Holding Corporation (the "Company") have been prepared in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include information or footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with GAAP. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the three and six month periods ended June 30, 2017 are not necessarily indicative of the results that may be expected for the entire fiscal year. These statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016, including the notes thereto, which were included as part of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 9, 2017.

Nature of Operations

Investar Holding Corporation, headquartered in Baton Rouge, Louisiana, provides full banking services, excluding trust services, through its wholly-owned banking subsidiary, Investar Bank (the "Bank"), a Louisiana-chartered bank. The Company's primary market is South Louisiana. At June 30, 2017, the Company operated 12 full service banking offices located throughout its market and had 157 employees.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and such differences could be material.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowance for loan losses may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Other estimates that are susceptible to significant change in the near term relate to the determination of other-than-temporary impairments of securities and the fair value of financial instruments.

Investment Securities

The Company's investments in securities are accounted for in accordance with applicable guidance contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), which requires the classification of securities into one of the following categories:

- Securities to be held to maturity ("HTM"): bonds, notes, and debentures for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.
- Securities available for sale ("AFS"): available for sale securities consist of bonds, notes, and debentures that are available to meet the Company's operating needs. These securities are reported at fair value.

Unrealized holding gains and losses, net of tax, on available for sale securities are reported as a net amount in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses on the sale of investment securities are determined using the specific-identification method.

The Company follows FASB guidance related to the recognition and presentation of other-than-temporary impairment. The guidance specifies that if an entity does not have the intent to sell a debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not that the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Loans

The Company's loan portfolio categories include real estate, commercial and consumer loans. Real estate loans are further categorized into construction and development, one-to-four family residential, multifamily, farmland and commercial real estate loans. The consumer loan category includes loans originated through indirect lending. Indirect lending, which is lending initiated through third-party business partners, is largely comprised of loans made through automotive dealerships.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at unpaid principal balances, adjusted by an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Loans are ordinarily placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more; however, management may elect to continue the accrual when the estimated net realizable value of collateral is sufficient to cover the principal balance and the accrued interest. Any unpaid interest previously accrued on nonaccrual loans is reversed from income. Interest income, generally, is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received.

The Company considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The Company's impaired loans include troubled debt restructurings and performing and non-performing major loans for which full payment of principal or interest is not expected. Large groups of smaller balance homogenous loans are collectively evaluated for impairment. The Company calculates an allowance required for impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of its collateral. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is required as a component of the allowance for loan losses. Changes to the valuation allowance are recorded as a component of the provision for loan losses.

The Company follows the FASB accounting guidance on sales of financial assets, which includes participating interests in loans. For loan participations that are structured in accordance with this guidance, the sold portions are recorded as a reduction of the loan portfolio. Loan participations that do not meet the criteria are accounted for as secured borrowings.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to be consistent with the 2017 presentation.

Concentrations of Credit Risk

The Company's loan portfolio consists of the various types of loans described in Note 4, Loans. Real estate or other assets secure most loans. The majority of loans have been made to individuals and businesses in the Company's market of South Louisiana. Customers are dependent on the condition of the local economy for their livelihoods and servicing their loan obligations. The Company does not have any significant concentrations in any one industry or individual customer.

New Accounting Pronouncement

Accounting Standards Update ("ASU") 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* was effective for the Company on January 1, 2017. ASU 2016-09 requires that all income tax effects related to vestings of share-based payment awards be reported in earnings as an increase (or decrease) to income tax expense. Previously, excess income tax benefits of a vested award were reported as an increase (or decrease) to additional paid-in capital to the extent that those benefits were greater than (or less than) the income tax benefits recognized in earnings during the award's vesting period. The requirement to report those income tax effects in earnings has been applied to vestings occurring on or after January 1, 2017 and resulted in recording a $57,000 tax benefit for the six months ended June 30, 2017. ASU 2016-09 also requires that all income tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows. We have elected to apply that change in cash flow classification on a prospective basis. The impact of this change and that of the remaining provisions of ASU 2016-09 did not have significant impact on our financial statements.

Recent Accounting Pronouncements

FASB ASC Topic 718 "Compensation – Stock Compensation: Scope of Modification Accounting" Update No. 2017-09. The Financial Accounting Standards Board ("FASB") issued ASU No. 2017-09 in May 2017. The ASU clarifies when changes to terms or conditions of a share-based payment award must be accounted for as a modification. Under the new guidance, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the fair value of the award, (ii) the vesting conditions of the award, and (iii) the classification of the award as either an equity or liability instrument. ASU 2017-09 will be effective for the Company beginning January 1, 2018. Early adoption is permitted. The guidance requires companies to apply the requirements prospectively to awards modified on or after the adoption date. ASU 2017-09 is not expected to have a significant impact on the Company's consolidated financial statements.

FASB ASC Subtopic 310-20 "Receivables – Nonrefundable Fees and Other Costs, Premium Amortization on Purchased Callable Debt Securities" Update No. 2017-08. The FASB issued ASU No. 2017-08 in March 2017. The amendments in the ASU 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. Update 2017-08 will be effective for the Company beginning January 1, 2019. 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 Company is assessing the impact of ASU 2017-08 on its accounting and disclosures.

FASB ASC Topic 350 "Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment" Update No. 2017-04. The FASB issued ASU No. 2017-04 in January 2017. The ASU simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Therefore, any carrying amount which exceeds the reporting unit's fair value, up to the amount of goodwill recorded, will be recognized as an impairment loss. ASU 2017-04 will be effective for the Company on January 1, 2020. The amendments will be applied prospectively on or after the effective date. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Based on recent goodwill impairments tests, which did not require the application of Step 2, the Company does not expect the adoption of this ASU to have an immediate impact.

FASB ASC Topic 805 "Business Combinations: Clarifying the Definition of a Business" Update No. 2017-01. The FASB issued ASU No. 2017-01 in January 2017. The amendments in the ASU are intended to clarify the definition and the current interpretation of a business to assist companies and other reporting organizations with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The ASU will be effective for the Company beginning January 1, 2018. The amendments will be applied prospectively on or after the effective date. Early application of the amendments in this ASU is allowed for transactions, including when a subsidiary or group of assets is deconsolidated/derecognized, in which the acquisition date occurs before the issuance date or effective date of the amendments, only when the transaction has not been reported in financial statements that have been issued or made available for issuance. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

FASB ASC Topic 230 "Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments" Update No. 2016-15. The FASB issued ASU No. 2016-15 in August 2016. The amendments in the ASU address eight specific cash flow issues with the objective of reducing the existing diversity in practice, as the issues are either unclear or do not have specific guidance under current GAAP. ASU 2016-15 will be effective on January 1, 2018. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

FASB ASC Topic 326 "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments" Update No. 2016-13. The FASB issued ASU No. 2016-13 in June 2016. The amendments introduce an impairment model that is based on expected credit losses, rather than incurred losses, to estimate credit losses on certain types of financial instruments (e.g., loans and held-to-maturity securities), including certain off-balance sheet financial instruments (e.g., loan commitments). The expected credit losses should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments, over the contractual term. Financial instruments with similar risk characteristics may be grouped together when estimating expected credit losses. The ASU also amends the current AFS security impairment model for debt securities. The new model will require an estimate of expected credit losses when the fair value is below the amortized cost of the asset through the use of an allowance to record estimated credit losses (and subsequent recoveries). Non-credit related losses will continue to be recognized through other comprehensive income. In addition, the amendments provide for a simplified accounting model for purchased financial assets with a more-than-insignificant amount of credit deterioration since their origination. The initial estimate of expected credit losses would be recognized through an allowance for loan losses with an offset (i.e., increase) to the cost basis of the related financial asset at acquisition.

ASU 2016-13 will be effective for the Company beginning January 1, 2020. The amendments will be applied through a modified-retrospective approach, resulting in a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which other-than-temporary impairment had been recognized before the effective date. Amounts previously recognized in accumulated other comprehensive income as of the date of adoption that relate to improvements in cash flows expected to be collected should continue to be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption should be recorded in earnings when received. Management is currently evaluating the potential impact of ASU 2016-13 on the Company's consolidated financial statements.

FASB ASC Topic 825 "Financial Instruments – Overall" Update No. 2016-1. The FASB issued ASU No. 2016-1 in January 2016 to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU will not change the guidance for classifying and measuring investments in debt securities or loans; however, it will impact how entities measure certain equity investments, recognize changes in the fair value of financial liabilities measured under the fair value option that are attributable to instrument-specific credit risk, and disclose and present financial assets and liabilities in financial statements. The main provisions require investments in equity securities to be measured at fair value through net income, unless they qualify for a new practicability exception, the equity method of accounting, or consolidation, and require fair value changes arising from changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option to be recognized in other comprehensive income. The amendments will also require entities to present financial assets and financial liabilities separately, grouped by measurement category and form of financial asset in the statement of financial position or in the accompanying notes to the financial statements. Entities will also no longer have to disclose the methods and significant assumptions for financial instruments measured at amortized cost, but will be required to measure such instruments under the "exit price" notion for disclosure purposes.

The amendments in this ASU are effective for the Company beginning January 1, 2018. The Company will record a cumulative-effect adjustment to beginning retained earnings as of the beginning of the first reporting period in which the guidance is adopted, with two exceptions. The amendments related to equity investments without readily determinable fair values will be effective prospectively. The requirement to use the exit price notion to measure fair value of financial instruments for disclosure purposes will also be applied prospectively.

The Company does not expect a significant cumulative-effect adjustment to be recorded at adoption or any significant impact to the consolidated financial statements associated with the accounting for its current equity investments. The Company does anticipate financial statement disclosures to be impacted, specifically related to financial instruments measured at amortized cost whose fair values are disclosed under the "entry price" notion, but is currently still in the process of determining the impact.

FASB ASC Topic 606 "Revenue from Contracts with Customers" Update No. 2014-9. The FASB issued ASU No. 2014-9 in May 2014 which implements a common revenue standard and clarifies the principles used for recognizing revenue. The amendments in the ASU clarify that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. As part of that principle, the entity should identify the contract(s) with the customer, identify the performance obligation(s) of the contract, determine the transaction price, allocate that transaction price to the performance obligation(s), and then recognize revenue when or as the entity satisfies the performance obligation(s). The amendments also provide additional guidance/principles associated with gross vs. net presentation (i.e., principal versus agency considerations).

The amendments in ASU No. 2014-9 will be effective for the Company beginning January 1, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that annual reporting period. The amendments will be applied through the election of one of two retrospective methods.

The Company intends to adopt the amendments beginning January 1, 2018 through the modified-retrospective transition method and does not expect to recognize a significant cumulative adjustment to equity upon implementation of the standard. Further, the Company does not expect a significant impact to the Company's consolidated statements of comprehensive income or consolidated balance sheets from either a presentation or timing perspective, but is still analyzing some contracts.

NOTE 2. EARNINGS PER SHARE

The following is a summary of the information used in the computation of basic and diluted earnings per share for the three and six months ended June 30, 2017 and 2016 (in thousands, except share data).

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income	$ 1,923	$ 2,005	$ 3,787	$ 3,995
Weighted average number of common shares outstanding used in computation of basic earnings per share	8,685,980	7,158,532	7,950,049	7,176,545
Effect of dilutive securities:				
Restricted stock	27,045	15,298	20,557	12,705
Stock options	43,640	14,715	34,478	14,752
Stock warrants	23,963	11,231	22,212	11,249
Weighted average number of common shares outstanding plus effect of dilutive securities used in computation of diluted earnings per share	8,780,628	7,199,776	8,027,296	7,215,251
Basic earnings per share	$ 0.22	$ 0.28	$ 0.48	$ 0.56
Diluted earnings per share	$ 0.22	$ 0.28	$ 0.47	$ 0.55

NOTE 3. INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities classified as available for sale are summarized below as of the dates presented (dollars in thousands).

June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of other U.S. government agencies and corporations	$ 50,477	$ 96	$ (368)	$ 50,205
Obligations of state and political subdivisions	26,596	20	(433)	26,183
Corporate bonds	15,264	55	(336)	14,983
Residential mortgage-backed securities	89,457	166	(674)	88,949
Commercial mortgage-backed securities	2,494	6	(41)	2,459
Equity securities	833	12	(40)	805
Total	$ 185,121	$ 355	$ (1,892)	$ 183,584

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of other U.S. government agencies and corporations	$ 29,809	$ 68	$ (387)	$ 29,490
Obligations of state and political subdivisions	29,631	15	(1,791)	27,855
Corporate bonds	15,292	54	(378)	14,968
Residential mortgage-backed securities	88,295	193	(900)	87,588
Commercial mortgage-backed securities	2,520	—	(76)	2,444
Equity securities	711	46	(51)	706
Total	$ 166,258	$ 376	$ (3,583)	$ 163,051

Proceeds from sales of investment securities available for sale and gross gains and losses are summarized below as of the dates presented (dollars in thousands).

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Proceeds from sale	$ 8,724	$ 4,978	$ 19,049	$ 8,418
Gross gains	$ 141	$ 144	$ 248	$ 224
Gross losses	$ (32)	$ —	$ (33)	$ —

The amortized cost and approximate fair value of investment securities classified as held to maturity are summarized below as of the dates presented (dollars in thousands).

June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of state and political subdivisions	$ 12,763	$ 12	$ (7)	$ 12,768
Residential mortgage-backed securities	6,697	7	(54)	6,650
Total	$ 19,460	$ 19	$ (61)	$ 19,418

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of state and political subdivisions	$ 12,976	$ 2	$ (429)	$ 12,549
Residential mortgage-backed securities	7,115	8	(60)	7,063
Total	$ 20,091	$ 10	$ (489)	$ 19,612

Securities are classified in the consolidated balance sheets according to management's intent. The Company had no securities classified as trading as of June 30, 2017 or December 31, 2016.

The aggregate fair values and aggregate unrealized losses on securities whose fair values are below book values are summarized in the tables below. Unrealized losses are generally due to changes in interest rates. The Company has the intent to hold these securities either until maturity or a forecasted recovery, and it is more likely than not that the Company will not have to sell the securities before the recovery of their cost basis. Due to the nature of the investment and current market prices, these unrealized losses are considered a temporary impairment of the securities.

The number of securities available for sale, fair value, and unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized below as of the dates presented (dollars in thousands).

		Less than 12 Months		12 Months or More		Total	
June 30, 2017	Count	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of other U.S. government agencies and corporations	59	$ 34,362	$ (368)	$ 435	$ —	$ 34,797	$ (368)
Obligations of state and political subdivisions	15	13,797	(120)	8,352	(313)	22,149	(433)
Corporate bonds	23	1,934	(66)	7,402	(270)	9,336	(336)
Residential mortgage-backed securities	109	59,174	(657)	2,890	(17)	62,064	(674)
Commercial mortgage-backed securities	3	1,436	(41)	—	—	1,436	(41)
Equity securities	2	208	(14)	480	(26)	688	(40)
Total	211	$ 110,911	$ (1,266)	$ 19,559	$ (626)	$ 130,470	$ (1,892)

		Less than 12 Months		12 Months or More		Total	
December 31, 2016	Count	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of other U.S. government agencies and corporations	45	$ 22,819	$ (382)	$ 448	$ (5)	$ 23,267	$ (387)
Obligations of state and political subdivisions	33	25,764	(1,791)	—	—	25,764	(1,791)
Corporate bonds	27	3,724	(132)	6,929	(246)	10,653	(378)
Residential mortgage-backed securities	110	60,433	(883)	1,778	(17)	62,211	(900)
Commercial mortgage-backed securities	4	2,444	(76)	—	—	2,444	(76)
Equity securities	3	50	(4)	492	(47)	542	(51)
Total	222	$ 115,234	$ (3,268)	$ 9,647	$ (315)	$ 124,881	$ (3,583)

The number of securities held to maturity, fair value, and unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized below as of the dates presented (dollars in thousands).

June 30, 2017	Count	Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of state and political subdivisions	1	$ 6,231	$ (7)	$ —	$ —	$ 6,231	$ (7)
Residential mortgage-backed securities	6	4,442	(54)	—	—	4,442	(54)
Total	7	$ 10,673	$ (61)	$ —	$ —	$ 10,673	$ (61)

December 31, 2016	Count	Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of state and political subdivisions	5	$ 9,597	$ (429)	$ —	$ —	$ 9,597	$ (429)
Residential mortgage-backed securities	6	4,677	(60)	—	—	4,677	(60)
Total	11	$ 14,274	$ (489)	$ —	$ —	$ 14,274	$ (489)

The unrealized losses in the Company's investment portfolio, caused by interest rate increases, are not credit issues and the Company does not intend to sell the securities. Furthermore, it is not more likely than not that the Company will be required to sell the securities before recovery of their amortized cost bases. The Company does not consider these securities to be other-than-temporarily impaired at June 30, 2017 or December 31, 2016.

The weighted average tax equivalent yield, amortized cost and approximate fair value of debt securities, by contractual maturity (including mortgage-backed securities), are shown below as of the dates presented. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (dollars in thousands).

June 30, 2017	Securities Available for Sale			Securities Held to Maturity		
	Weighted Average T.E. Yield	Amortized Cost	Fair Value	Weighted Average T.E. Yield	Amortized Cost	Fair Value
Due within one year	2.19%	$ 922	$ 919	7.17%	$ 685	$ 686
Due after one year through five years	2.31	10,410	10,405	7.17	3,095	3,101
Due after five years through ten years	2.84	25,448	25,118	7.17	2,745	2,750
Due after ten years	2.49	147,508	146,337	3.52	12,935	12,881
Total debt securities		$ 184,288	$ 182,779		$ 19,460	$ 19,418

December 31, 2016	Securities Available for Sale			Securities Held to Maturity		
	Weighted Average T.E. Yield	Amortized Cost	Fair Value	Weighted Average T.E. Yield	Amortized Cost	Fair Value
Due within one year	1.61%	$ 1,753	$ 1,750	7.17%	$ 685	$ 686
Due after one year through five years	2.27	10,509	10,476	7.17	3,095	3,089
Due after five years through ten years	2.77	27,173	26,771	7.17	2,745	2,637
Due after ten years	2.51	126,112	123,348	3.52	13,566	13,200
Total debt securities		$ 165,547	$ 162,345		$ 20,091	$ 19,612

NOTE 4. LOANS

The Company's loan portfolio consists of the following categories of loans as of the dates presented (dollars in thousands).

	June 30, 2017	December 31, 2016
Construction and development	$ 109,627	$ 90,737
1-4 Family	177,979	177,205
Multifamily	46,109	42,759
Farmland	8,006	8,207
Commercial real estate	408,523	380,716
Total mortgage loans on real estate	750,244	699,624
Commercial and industrial	98,837	85,377
Consumer	83,879	108,425
Total loans	$ 932,960	$ 893,426

The table below provides an analysis of the aging of loans as of the dates presented (dollars in thousands).

	June 30, 2017						
	Past Due and Accruing						
	30-59 days	60-89 days	90 or more days	Nonaccrual	Total Past Due & Nonaccrual	Current	Total Loans
Construction and development	$ —	$ —	$ —	$ 30	$ 30	$ 109,597	$ 109,627
1-4 Family	50	112	—	46	208	177,771	177,979
Multifamily	—	—	—	—	—	46,109	46,109
Farmland	—	—	—	—	—	8,006	8,006
Commercial real estate	29	—	—	—	29	408,494	408,523
Total mortgage loans on real estate	79	112	—	76	267	749,977	750,244
Commercial and industrial	49	—	—	26	75	98,762	98,837
Consumer	311	142	1	1,063	1,517	82,362	83,879
Total loans	$ 439	$ 254	$ 1	$ 1,165	$ 1,859	$ 931,101	$ 932,960

	December 31, 2016						
	Past Due and Accruing						
	30-59 days	60-89 days	90 or more days	Nonaccrual	Total Past Due & Nonaccrual	Current	Total Loans
Construction and development	$ 48	$ —	$ —	$ 480	$ 528	$ 90,209	$ 90,737
1-4 Family	427	—	—	47	474	176,731	177,205
Multifamily	—	—	—	—	—	42,759	42,759
Farmland	—	—	—	—	—	8,207	8,207
Commercial real estate	—	—	—	—	—	380,716	380,716
Total mortgage loans on real estate	475	—	—	527	1,002	698,622	699,624
Commercial and industrial	30	—	—	443	473	84,904	85,377
Consumer	378	149	1	1,008	1,536	106,889	108,425
Total loans	$ 883	$ 149	$ 1	$ 1,978	$ 3,011	$ 890,415	$ 893,426

Credit Quality Indicators

Loans are categorized 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. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

Pass - Loans not meeting the criteria below are considered pass. These loans have high credit characteristics and financial strength. The borrowers at least generate profits and cash flow that are in line with peer and industry standards and have debt service coverage ratios above loan covenants and our policy guidelines. For some of these loans, a guaranty from a financially capable party mitigates characteristics of the borrower that might otherwise result in a lower grade.

Special Mention - Loans classified as special mention possess some credit deficiencies that need to be corrected to avoid a greater risk of default in the future. For example, financial ratios relating to the borrower may have deteriorated. Often, a special mention categorization is temporary while certain factors are analyzed or matters addressed before the loan is re-categorized as either pass or substandard.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the borrower or the liquidation value of any collateral. If deficiencies are not addressed, it is likely that this category of loan will result in the Bank incurring a loss. Where a borrower has been unable to adjust to industry or general economic conditions, the borrower's loan is often categorized as substandard.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss - Loans classified as loss are considered uncollectible and of such little value that their continuance as recorded assets is not warranted. This classification does not mean that the assets have absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off these assets.

The table below presents the Company's loan portfolio by category and credit quality indicator as of the dates presented (dollars in thousands).

	June 30, 2017			
	Pass	Special Mention	Substandard	Total
Construction and development	$ 109,578	$ —	$ 49	$ 109,627
1-4 Family	177,888	—	91	177,979
Multifamily	45,259	—	850	46,109
Farmland	8,006	—	—	8,006
Commercial real estate	407,956	—	567	408,523
Total mortgage loans on real estate	748,687	—	1,557	750,244
Commercial and industrial	96,358	—	2,479	98,837
Consumer	82,420	396	1,063	83,879
Total loans	$ 927,465	$ 396	$ 5,099	$ 932,960

	December 31, 2016			
	Pass	Special Mention	Substandard	Total
Construction and development	$ 90,238	$ —	$ 499	$ 90,737
1-4 Family	177,091	20	94	177,205
Multifamily	42,759	—	—	42,759
Farmland	8,207	—	—	8,207
Commercial real estate	380,716	—	—	380,716
Total mortgage loans on real estate	699,011	20	593	699,624
Commercial and industrial	83,215	59	2,103	85,377
Consumer	106,916	501	1,008	108,425
Total loans	$ 889,142	$ 580	$ 3,704	$ 893,426

The Company had no loans that were classified as doubtful or loss as of June 30, 2017 or December 31, 2016.

Loan participations and whole loans sold to and serviced for others are not included in the accompanying consolidated balance sheets. The balance of loans serviced for others was $223.5 million and $274.9 million as of June 30, 2017 and December 31, 2016, respectively. The unpaid principal balance of these loans was approximately $274.0 million and $319.6 million as of June 30, 2017 and December 31, 2016, respectively.

In the ordinary course of business, the Company makes loans to its executive officers, principal stockholders, directors and to companies in which these individuals are principal owners. Loans outstanding to such related party borrowers (including companies in which they are principal owners) amounted to approximately $27.1 million and $20.0 million as of June 30, 2017 and December 31, 2016, respectively. These loans are all current and performing according to the original terms. These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the Company or the Bank and did not involve more than normal risk of collectability or present other unfavorable features.

The table below shows the aggregate amount of loans to such related parties as of the dates presented (dollars in thousands).

	June 30, 2017	December 31, 2016
Balance, beginning of period	$ 19,957	$ 17,992
New loans	9,252	5,058
Repayments and changes in relationship	(2,135)	(3,093)
Balance, end of period	$ 27,074	$ 19,957

Loans Acquired with Deteriorated Credit Quality

The Company elected to account for certain loans acquired as acquired impaired loans under ASC 310-30 due to evidence of credit deterioration at acquisition and the probability that the Company will be unable to collect all contractually required payments.

The table below shows the changes in the accretable yield on acquired impaired loans for the periods presented (dollars in thousands).

	Acquired Impaired
Balance, period ended December 31, 2015	$ 395
Net transfers from (to) nonaccretable difference to (from) accretable yield	1
Accretion to interest income	(121)
Balance, period ended December 31, 2016	$ 275
Loan disposals	(250)
Accretion to interest income	(25)
Balance, period ended June 30, 2017	$ —

NOTE 5. ALLOWANCE FOR LOAN LOSSES

The table below shows a summary of the activity in the allowance for loan losses for the three and six months ended June 30, 2017 and 2016 (dollars in thousands).

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Balance, beginning of period	$ 7,243	$ 6,463	$ 7,051	$ 6,128
Provision for loan losses	375	800	725	1,254
Loans charged off	(314)	(180)	(480)	(336)
Recoveries	16	8	24	45
Balance, end of period	$ 7,320	$ 7,091	$ 7,320	$ 7,091

The following tables outline the activity in the allowance for loan losses by collateral type for the three and six months ended June 30, 2017 and 2016, and show both the allowances and portfolio balances for loans individually and collectively evaluated for impairment as of June 30, 2017 and 2016 (dollars in thousands).

	Three months ended June 30, 2017							
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	$ 694	$ 54	$ 1,237	$ 374	$ 2,908	$ 744	$ 1,232	$ 7,243
Provision	101	—	38	(13)	128	132	(11)	375
Charge-offs	—	—	—	—	—	(193)	(121)	(314)
Recoveries	11	—	1	—	—	—	4	16
Ending balance	$ 806	$ 54	$ 1,276	$ 361	$ 3,036	$ 683	$ 1,104	$ 7,320

	Three months ended June 30, 2016							
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	$ 729	$ 46	$ 1,257	$ 279	$ 2,292	$ 550	$ 1,310	$ 6,463
Provision	54	15	22	31	138	478	62	800
Charge-offs	(7)	—	—	—	—	—	(173)	(180)
Recoveries	3	—	1	—	—	—	4	8
Ending balance	$ 779	$ 61	$ 1,280	$ 310	$ 2,430	$ 1,028	$ 1,203	$ 7,091

	Six months ended June 30, 2017							
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	$ 579	$ 60	$ 1,377	$ 355	$ 2,499	$ 759	$ 1,422	$ 7,051
Provision	213	(6)	(103)	6	537	117	(39)	725
Charge-offs	—	—	—	—	—	(193)	(287)	(480)
Recoveries	14	—	2	—	—	—	8	24
Ending balance	$ 806	$ 54	$ 1,276	$ 361	$ 3,036	$ 683	$ 1,104	$ 7,320
Ending allowance balance for loans individually evaluated for impairment	—	—	—	—	—	—	297	297
Ending allowance balance for loans collectively evaluated for impairment	$ 806	$ 54	$ 1,276	$ 361	$ 3,036	$ 683	$ 807	$ 7,023
Ending allowance balance for loans acquired with deteriorated credit quality	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans receivable:								
Balance of loans individually evaluated for impairment	$ 189	$ —	$ 1,651	$ —	$ 595	$ 26	$ 1,063	$ 3,524
Balance of loans collectively evaluated for impairment	109,438	8,006	176,328	46,109	407,928	98,811	82,816	929,436
Total period-end balance	$ 109,627	$ 8,006	$ 177,979	$ 46,109	$ 408,523	$ 98,837	$ 83,879	$ 932,960
Balance of loans acquired with deteriorated credit quality	$ 207	$ —	$ 483	$ 1,035	$ —	$ —	$ —	$ 1,725

	Six months ended June 30, 2016							
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	$ 644	$ 22	$ 1,213	$ 246	$ 2,156	$ 513	$ 1,334	$ 6,128
Provision	143	39	66	64	273	495	174	1,254
Charge-offs	(14)	—	(7)	—	—	—	(315)	(336)
Recoveries	6	—	8	—	1	20	10	45
Ending balance	$ 779	$ 61	$ 1,280	$ 310	$ 2,430	$ 1,028	$ 1,203	$ 7,091
Ending allowance balance for loans individually evaluated for impairment	—	—	—	—	—	500	238	738
Ending allowance balance for loans collectively evaluated for impairment	$ 779	$ 61	$ 1,280	$ 310	$ 2,430	$ 528	$ 965	$ 6,353
Ending allowance balance for loans acquired with deteriorated credit quality	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans receivable:								
Balance of loans individually evaluated for impairment	$ 1,207	$ —	$ 2,146	$ —	$ 890	$ 2,775	$ 938	$ 7,956
Balance of loans collectively evaluated for impairment	99,873	8,343	164,632	37,300	331,416	72,328	95,622	809,514
Total period-end balance	$ 101,080	$ 8,343	$ 166,778	$ 37,300	$ 332,306	$ 75,103	$ 96,560	$ 817,470
Balance of loans acquired with deteriorated credit quality	$ 682	$ —	$ 804	$ 1,043	$ —	$ —	$ 36	$ 2,565

Impaired Loans

The Company considers a loan to be impaired when, based on current information and events, the Company determines that it will not be able to collect all amounts due according to the loan agreement, including scheduled interest payments. Generally, those loans rated special mention or lower are evaluated for impairment each quarter. Determination of impairment is treated the same across all classes of loans. When the Company identifies a loan as impaired, it measures the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loans is the operation or liquidation of the collateral. In these cases when foreclosure is probable, the Company uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If the Company determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the Company recognizes impairment through an allowance estimate or a charge-off to the allowance for loan losses.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual, contractual interest is credited to interest income when received, under the cash basis method.

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, as of the dates indicated. The Company determined the specific allowance based on the present values of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less estimated selling cost, was used to determine the specific allowance recorded (dollars in thousands).

	June 30, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Construction and development	$ 189	$ 207	$ —
1-4 Family	1,651	1,680	—
Commercial real estate	595	610	—
Total mortgage loans on real estate	2,435	2,497	—
Commercial and industrial	26	26	—
Consumer	145	162	—
Total	2,606	2,685	—
With related allowance recorded:			
Consumer	918	948	297
Total	918	948	297
Total loans:			
Construction and development	189	207	—
1-4 Family	1,651	1,680	—
Commercial real estate	595	610	—
Total mortgage loans on real estate	2,435	2,497	—
Commercial and industrial	26	26	—
Consumer	1,063	1,110	297
Total	$ 3,524	$ 3,633	$ 297

	December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Construction and development	$ 645	$ 661	$ —
1-4 Family	1,673	1,701	—
Commercial real estate	608	623	—
Total mortgage loans on real estate	2,926	2,985	—
Commercial and industrial	15	16	
Consumer	153	166	—
Total	3,094	3,167	—
With related allowance recorded:			
Commercial and industrial	428	430	136
Consumer	855	873	287
Total	1,283	1,303	423
Total loans:			
Construction and development	645	661	—
1-4 Family	1,673	1,701	—
Commercial real estate	608	623	—
Total mortgage loans on real estate	2,926	2,985	—
Commercial and industrial	443	446	136
Consumer	1,008	1,039	287
Total	$ 4,377	$ 4,470	$ 423

Presented in the tables below is the average recorded investment of the impaired loans and the related amount of interest income recognized during the time within the period that the loans were impaired. The average balances are calculated based on the month-end balances of the loans during the periods reported (dollars in thousands).

	Three months ended June 30,			
	2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Construction and development	$ 339	$ 1	$ 1,209	$ 67
1-4 Family	1,655	26	2,037	26
Commercial real estate	599	25	712	2
Total mortgage loans on real estate	2,593	52	3,958	95
Commercial and industrial	26	—	1,294	—
Consumer	234	—	246	5
Total	2,853	52	5,498	100
With related allowance recorded:				
Commercial and industrial	—	—	662	—
Consumer	891	—	626	2
Total	891	—	1,288	2
Total loans:				
Construction and development	339	1	1,209	67
1-4 Family	1,655	26	2,037	26
Commercial real estate	599	25	712	2
Total mortgage loans on real estate	2,593	52	3,958	95
Commercial and industrial	26	—	1,956	—
Consumer	1,125	—	872	7
Total	$ 3,744	$ 52	$ 6,786	$ 102

	Six months ended June 30,			
	2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Construction and development	$ 490	$ 6	$ 1,217	$ 77
1-4 Family	1,661	43	1,870	43
Commercial real estate	603	27	669	3
Total mortgage loans on real estate	2,754	76	3,756	123
Commercial and industrial	234	—	654	—
Consumer	300	1	330	7
Total	3,288	77	4,740	130
With related allowance recorded:				
Commercial and industrial	—	—	331	—
Consumer	837	1	494	5
Total	837	1	825	5
Total loans:				
Construction and development	490	6	1,217	77
1-4 Family	1,661	43	1,870	43
Commercial real estate	603	27	669	3
Total mortgage loans on real estate	2,754	76	3,756	123
Commercial and industrial	234	—	985	—
Consumer	1,137	2	824	12
Total	$ 4,125	$ 78	$ 5,565	$ 135

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession for other than an insignificant period of time to the borrower that the Company would not otherwise consider, the related loan is classified as a troubled debt restructuring ("TDR"). The Company strives to identify borrowers in financial difficulty early and work with them to modify their loans to more affordable terms before such loans reach nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases in which the Company grants the borrower new terms that provide for a reduction of either interest or principal, or otherwise include a concession, the Company identifies the loan as a TDR and measures any impairment on the restructuring as previously noted for impaired loans.

Loans classified as TDRs, consisting of eighteen credits, totaled approximately $2.4 million at both June 30, 2017 and December 31, 2016. Eight of the restructured loans were considered TDRs due to modification of terms through adjustments to maturity, nine of the restructured loans were considered TDRs due to a reduction in the interest rate to a rate lower than the current market rate, and one restructured loan was considered a TDR due to modification of terms through principal payment forbearance, paying interest only for a specified period of time. As of June 30, 2017 and December 31, 2016, all restructured loans were performing under their modified terms. The Company individually evaluates each TDR for allowance purposes, primarily based on collateral value, and excludes these loans from the loan population that is collectively evaluated for impairment.

At June 30, 2017 and December 31, 2016, there were no available balances on loans classified as TDRs that the Company was committed to lend.

The table below presents the TDR pre- and post-modification outstanding recorded investments by loan categories for loans modified during the six month periods ended June 30, 2017 and 2016 (dollars in thousands).

	June 30, 2017			June 30, 2016		
Troubled Debt Restructurings	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
1-4 Family	—	$ —	$ —	11	$ 789	$ 789
Total		$ —	$ —		$ 789	$ 789

There were no loans modified under TDRs during the previous twelve month period that subsequently defaulted during the three months ended June 30, 2017 and 2016.

NOTE 6. SUBORDINATED DEBT SECURITIES

On March 24, 2017, the Company issued and sold $18.6 million in aggregate principal amount of its 6.00% Fixed-to-Floating Rate Subordinated Notes (the "Notes") due March 30, 2027. Beginning on March 30, 2022, the Company may redeem the Notes, in whole or in part, at their principal amount plus any accrued and unpaid interest. The Notes bear an interest rate of 6.00% per annum until March 30, 2022, on which date the interest rate will reset quarterly to an annual interest rate equal to the then-current LIBOR plus 394.5 basis points.

The carrying value of subordinated debt was $18.1 million at June 30, 2017. The subordinated debt securities were recorded net of issuance costs of $0.5 million. The issuance costs are being amortized using the straight-line method over the life of the Notes.

NOTE 7. STOCKHOLDERS' EQUITY

On March 22, 2017, the Company completed a common stock offering of 1.6 million shares of its common stock at a price of $21.25 per share. The common stock offering generated net proceeds of $32.5 million. Total stockholders' equity was $150.8 million at June 30, 2017, compared to $112.8 million at December 31, 2016.

NOTE 8. STOCK-BASED COMPENSATION

Equity Incentive Plan. The Company previously granted equity awards to its employees and non-employee directors under its 2014 Long-Term Incentive Compensation Plan (the "2014 Plan"). Effective May 24, 2017, the Company's shareholders approved its 2017 Long-Term Incentive Compensation Plan (the "Plan") and ceased using the 2014 Plan. The Plan authorizes the grant of various types of equity grants and awards, such as restricted stock, stock options and stock appreciation rights to eligible participants, which include all of the Company's employees, non-employee directors, and consultants. The Plan has reserved 600,000 shares of common stock for grant, award or issuance to eligible participants, including shares underlying granted options. The Plan is administered by the Compensation Committee of the Company's Board of Directors, which determines, within the provisions of the Plan, those eligible employees to whom, and the times at which, grants and awards will be made. The Compensation Committee, in its discretion, may delegate its authority and duties under the Plan to specified officers; however, only the Compensation Committee may approve the terms of grants and awards to the Company's executive officers and directors.

Stock Options

The Company uses a Black-Scholes option pricing model to estimate the fair value of share-based awards. The Black-Scholes option pricing model incorporates various and highly subjective assumptions, including expected term and expected volatility. Stock option expense in the accompanying consolidated statements of income for the three and six months ended June 30, 2017 was $57,000 and $108,000, respectively, and $49,000 and $92,000 for the three and six months ended June 30, 2016.

The assumptions presented below were used for the options granted during the six months ended June 30, 2017.

Expected dividends		0.22%
Expected volatility		20.46%
Risk-free interest rate		2.19%
Expected term (in years)		7.0
Weighted-average grant date fair value	$	5.39

At June 30, 2017, there was $0.8 million of unrecognized compensation cost related to stock options that is expected to be recognized over a weighted-average period of 3.2 years.

The table below summarizes stock option activity for the periods presented.

	Six months ended June 30,			
	2017		2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of period	319,364	$ 14.37	278,352	$ 14.37
Granted	36,177	20.25	46,512	14.28
Forfeited	(5,334)	14.00	—	—
Exercised	(15,041)	13.45	(1,083)	14.00
Outstanding at end of period	335,166	$ 15.05	323,781	$ 14.36
Exercisable at end of period	95,177	$ 14.50	59,134	$ 14.23

At June 30, 2017, the shares underlying outstanding stock options and exercisable stock options had aggregate intrinsic values of $2.6 million and $0.8 million, respectively.

Time Vested Restricted Stock Awards

During the six months ended June 30, 2017 and 2016, the Company issued shares of time vested restricted stock with vesting terms ranging from two to five years. The total share-based compensation expense to be recognized for these awards is determined based on the market price of the Company's common stock at the grant date applied to the total number of shares awarded and is amortized over the vesting period.

The table below summarizes the time vested restricted stock award activity for the periods presented.

	Six months ended June 30,			
	2017		2016	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Balance at beginning of period	93,366	$ 14.75	60,592	$ 14.85
Granted	52,966	20.10	54,837	14.67
Forfeited	(7,836)	16.15	(1,157)	16.32
Earned and issued	(18,422)	15.11	(6,991)	15.68
Balance at end of period	120,074	$ 16.96	107,281	$ 14.70

At June 30, 2017, there was $1.1 million of unrecognized compensation cost related to time vested restricted stock awards that is expected to be recognized over a weighted average period of 3.4 years.

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

The Company currently holds interest rate swap contracts to manage exposure against the variability in the expected future cash flows (future interest payments) attributable to changes in the 1-month LIBOR associated with the forecasted issuances of 1-month fixed rate debt arising from a rollover strategy. An interest rate swap is an agreement whereby one party agrees to pay a fixed rate of interest on a notional principal amount in exchange for receiving a floating rate of interest on the same notional amount, for a predetermined period of time, from a second party. The amounts relating to the notional principal amount are not actually exchanged. The maximum length of time over which the Company is currently hedging its exposure to the variability in future cash flows for forecasted transactions is approximately 3.1 years. The total notional amount of the derivative contracts is $50.0 million.

For the three and six months ended June 30, 2017, a loss of $43,000 and a gain of $77,000, respectively, have been recognized in "Other comprehensive income (loss)" in the accompanying consolidated statements of comprehensive income for the change in fair value of the interest rate swaps compared to losses of $0.2 million and $0.7 million, respectively, recognized for the three and six months ended June 30, 2016. The swap contracts had a fair value of $0.1 million as of June 30, 2017 and have been recorded in "Other assets" in the accompanying consolidated balance sheet. The accumulated gain of $0.1 million included in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheet would be reclassified to current earnings if the hedge transactions become probable of not occurring. The Company expects the hedges to remain fully effective during the remaining term of the swap contracts.

NOTE 10. FAIR VALUES OF FINANCIAL INSTRUMENTS

In accordance with FASB ASC Topic 820, *Fair Value Measurement and Disclosure* ("ASC 820"), disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, is required. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. 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, and the fair value estimates may not be realized in an immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

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 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.

Fair Value Hierarchy

In accordance with ASC 820, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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

Level 2 – Valuation is based upon observable inputs other than quoted prices included in level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Valuation is based upon unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and Due from Banks – For these short-term instruments, fair value is the carrying value. Cash and due from banks is classified in level 1 of the fair value hierarchy.

Federal Funds Sold – The fair value is the carrying value. The Company classifies these assets in level 1 of the fair value hierarchy.

Investment Securities and Other Equity Securities – Where quoted prices are available in an active market, the Company classifies the securities within level 1 of the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities include highly liquid government bonds and exchange-traded equities.

If quoted market prices are not available, the Company estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include Government Sponsored Enterprise obligations, corporate bonds and other securities. Mortgage-backed securities are included in level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, the Company classifies those securities in level 3. Equity securities are valued based on market quoted prices and are classified in level 1 as they are actively traded.

Loans – For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar instruments sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans (for example, commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using market interest rates for comparable loans. Fair values for nonperforming loans, which are loans for which the accrual of interest has stopped or loans that are contractually 90 past due on which interest continues to accrue, are estimated using discounted cash flow analyses or underlying collateral values, where applicable. The Company classifies loans in level 3 of the fair value hierarchy.

Deposit Liabilities – The fair values disclosed for noninterest-bearing demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). These noninterest-bearing deposits are classified in level 2 of the fair value hierarchy. The carrying amounts of variable-rate (for example interest-bearing checking, savings, and money market accounts), fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits. All interest-bearing deposits are classified in level 3 of the fair value hierarchy.

Short-Term Borrowings – The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings approximate their fair values. The Company classifies these borrowings in level 2 of the fair value hierarchy.

Long-Term Borrowings – The fair values of long-term borrowings are estimated using discounted cash flows analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's long-term debt is therefore classified in level 3 in the fair value hierarchy.

Subordinated Debt Securities - The fair value of subordinated debt is estimated based on current market rates on similar debt in the market. The Company classifies this debt in level 2 of the fair value hierarchy.

Commitments – The fair value of commitments to extend credit was not significant.

Derivative Instruments – The fair value for interest rate swap agreements are based upon the amounts required to settle the contracts. These derivative instruments are classified in level 2 of the fair value hierarchy.

Fair Value of Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized in the table below as of the dates indicated (dollars in thousands).

	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017				
Assets:				
Obligations of other U.S. government agencies	$ 50,205	$ —	$ 50,205	$ —
Obligations of state and political subdivisions	26,183	—	7,270	18,913
Corporate bonds	14,983	—	13,663	1,320
Residential mortgage-backed securities	88,949	—	88,949	—
Commercial mortgage-backed securities	2,459	—	2,459	—
Equity securities	805	805	—	—
Derivative financial instruments	127	—	127	—
Total assets	$ 183,711	$ 805	$ 162,673	$ 20,233
December 31, 2016				
Assets:				
Obligations of other U.S. government agencies	$ 29,490	$ —	$ 29,490	$ —
Obligations of state and political subdivisions	27,855	—	10,199	17,656
Corporate bonds	14,968	—	14,344	624
Residential mortgage-backed securities	87,588	—	87,588	—
Commercial mortgage-backed securities	2,444	—	2,444	—
Equity securities	706	706	—	—
Derivative financial instruments	8	—	8	—
Total assets	$ 163,059	$ 706	$ 144,073	$ 18,280

The Company reviews fair value hierarchy classifications on a quarterly basis. Changes in the Company's ability to observe inputs to the valuation may cause reclassification of certain assets or liabilities within the fair value hierarchy. The tables below provide a reconciliation for assets measured at fair value on a recurring basis using significant unobservable inputs, or Level 3 inputs, for the three months ended June 30, 2017 and June 30, 2016 (dollars in thousands).

	Obligations of State and Political Subdivisions	Corporate Bonds	Total
Balance at December 31, 2016	$ 17,656	$ 624	$ 18,280
Realized gains (losses) included in net income	—	—	—
Unrealized gains (losses) included in other comprehensive income	1,257	(4)	1,253
Purchases	—	700	700
Sales	—	—	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance at June 30, 2017	$ 18,913	$ 1,320	$ 20,233

	Obligations of State and Political Subdivisions	Corporate Bonds	Total
Balance at December 31, 2015	$ 10,395	$ 1,136	$ 11,531
Realized gains (losses) included in net income	—	—	—
Unrealized gains (losses) included in other comprehensive income	562	(33)	529
Purchases	8,665	—	8,665
Sales	—	—	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	(485)	(485)
Balance at June 30, 2016	$ 19,622	$ 618	$ 20,240

Fair Value of Assets Measured on a Nonrecurring Basis

Assets measured at fair value on a nonrecurring basis are summarized in the table below as of the dates indicated (dollars in thousands).

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Discounts	Weighted Average Discount
June 30, 2017					
Impaired loans	$ 267	Discounted cash flows, Underlying collateral value	Collateral discounts and estimated costs to sell	0% - 100%	27%
December 31, 2016					
Impaired loans	$ 801	Discounted cash flows, Underlying collateral value	Collateral discounts and estimated costs to sell	1% - 100%	32%

There were no liabilities measured on a nonrecurring basis at June 30, 2017 or December 31, 2016.

The estimated fair values of the Company's financial instruments are summarized in the table below as of the dates indicated (dollars in thousands).

	June 30, 2017				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 34,958	$ 34,958	$ 34,958	$ —	$ —
Federal funds sold	3	3	3	—	—
Investment securities	203,044	203,002	805	169,196	33,001
Other equity securities	7,025	7,025	—	7,025	—
Loans, net of allowance	925,640	925,460	—	—	925,460
Derivative financial instruments	127	127	—	127	—
Financial liabilities:					
Deposits, noninterest-bearing	$ 130,625	$ 130,625	$ —	$ 130,625	$ —
Deposits, interest-bearing	764,200	746,231	—	—	746,231
FHLB short-term advances and repurchase agreements	127,930	127,930	—	127,930	—
FHLB long-term advances	18,100	17,977	—	—	17,977
Junior subordinated debt	3,609	2,848	—	—	2,848
Subordinated debt	18,600	18,832	—	18,832	—

	December 31, 2016				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 29,342	$ 29,342	$ 29,342	$ —	$ —
Federal funds sold	106	106	106	—	—
Investment securities	183,142	182,663	706	151,128	30,829
Other equity securities	5,362	5,362	—	5,362	—
Loans, net of allowance	886,375	890,949	—	—	890,949
Derivative financial instruments	8	8	—	8	—
Financial liabilities:					
Deposits, noninterest-bearing	$ 108,404	$ 108,404	$ —	$ 108,404	$ —
Deposits, interest-bearing	799,383	779,397	—	—	779,397
FHLB short-term advances and repurchase agreements	112,690	112,690	—	112,690	—
FHLB long-term advances	9,200	9,233	—	—	9,233
Junior subordinated debt	3,609	3,635	—	—	3,635
Other borrowings	1,000	1,001	—	1,001	—

NOTE 11. INCOME TAXES

The expense for income taxes and the effective tax rate included in the consolidated statements of income are shown in the table below for the periods presented (dollars in thousands).

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Income tax expense	$ 877	$ 1,005	$ 1,724	$ 2,011
Effective tax rate	31.3%	33.4%	31.3%	33.5%

The effective tax rates differ from the statutory tax rate of 35% largely due to tax exempt interest income earned on certain investment securities.

NOTE 12. COMMITMENTS AND CONTINGENCIES

The Company is a party to financial instruments with off-balance-sheet risk entered into in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit consisting of loan commitments and standby letters of credit, which are not included in the accompanying financial statements.

Commitments to extend credit are agreements to lend money with fixed expiration dates or termination clauses. The Company applies the same credit standards used in the lending process when extending these commitments, and periodically reassesses the customer's creditworthiness through ongoing credit reviews. Since some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Collateral is obtained based on the Company's assessment of the transaction. Essentially all standby letters of credit issued have expiration dates within one year.

The table below shows the approximate amounts of the Company's commitments to extend credit as of the dates presented (dollars in thousands).

	June 30, 2017	December 31, 2016
Commitments to extend credit		
Loan commitments	$ 119,913	$ 142,891
Standby letters of credit	485	1,008

Additionally, at June 30, 2017, the Company had unfunded commitments of $0.3 million for its investment in Small Business Investment Company qualified funds

During the first quarter of 2017, the Company announced that it has entered into a definitive agreement to acquire Citizens Bancshares, Inc. ("Citizens") and its wholly-owned subsidiary, Citizens Bank, in Ville Platte, Louisiana, which has three branches in Evangeline Parish. The acquisition transactions were completed on July 1, 2017. The Company's acquisition of Citizens, which is the first acquisition since the completion of its initial public offering, expands its branch footprint in Louisiana. Consequently, the Company recognized approximately $80,000 and $225,000 of expenses related to the acquisition for the three and six months ended June 30, 2017, respectively, which is included in noninterest expense on the consolidated statements of income.

NOTE 13. SUBSEQUENT EVENTS

On July 1, 2017, the Company completed the acquisition of Citizens, and its wholly-owned subsidiary, Citizens Bank, located in Evangeline Parish, further expanding its footprint in Louisiana. The Company paid an aggregate amount of cash consideration equal to $45.8 million, or approximately $419.20 in exchange for each share of Citizens common stock that was outstanding immediately prior to the effective time of the acquisition. At June 30, 2017, Citizens had approximately $250 million in assets, $130 million in net loans, $212 million in deposits and $36 million in stockholders' equity, and served the residents of Evangeline Parish through its three branch locations.

On August 4, 2017, the Company entered into an Agreement and Plan of Reorganization (the "Merger Agreement") with BOJ Bancshares, Inc. ("BOJ"), the parent company for The Highlands Bank, Jackson, Louisiana, and Investar Interim Corporation, a Louisiana corporation and wholly-owned subsidiary of Investar Bank ("Merger Subsidiary"). The Merger Agreement provides for the merger of BOJ with and into the Merger Subsidiary, with the Merger Subsidiary as the surviving corporation, followed by the merger of the Merger Subsidiary with and into Investar Bank, with Investar Bank as the surviving corporation. Promptly following the holding company mergers, The Highlands Bank will merge with and into Investar Bank.

The Merger Agreement provides for consideration to be paid to the shareholders of BOJ in the form of cash and shares of the Company's common stock. Shareholders of BOJ will be entitled to receive an aggregate amount of cash consideration equal to $3.95 million, subject to certain adjustments. Shareholders of BOJ will also be entitled to receive an aggregate of 799,559 shares of the Company's common stock, subject to adjustment based upon fluctuations in the Company's average closing price for the ten consecutive trading days prior to the closing date. The transaction is valued at approximately $22.1 million based upon the closing price of the Company's common stock of $22.65 on August 4, 2017. The value of the merger consideration will fluctuate upon changes in the Company's stock price, and is subject to potential adjustments more fully described in the Merger Agreement. It is expected that shareholders of BOJ will own approximately 9% of the combined company following the acquisition.

At June 30, 2017, BOJ had approximately $150 million in assets, $104 million in net loans, $123 million in deposits and $17 million in stockholders' equity. Highlands Bank offers a full range of banking products and services to the residents of East Feliciana, West Feliciana, and East Baton Rouge Parishes through its five branch locations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section presents management's perspective on the consolidated financial condition and results of operations of Investar Holding Corporation (the "Company," "we," "our," or "us") and its wholly-owned subsidiary, Investar Bank (the "Bank"). The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and related notes thereto included herein, and the audited consolidated financial statements for the year ended December 31, 2016, including the notes thereto, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report on Form 10-K that the Company filed with the Securities and Exchange Commission ("SEC") on March 9, 2017.

Overview

Through our wholly-owned subsidiary Investar Bank, we provide full banking services, excluding trust services, tailored primarily to meet the needs of individuals and small to medium-sized businesses in our primary areas of operation in South Louisiana: Baton Rouge, New Orleans, Lafayette, Hammond and their surrounding metropolitan areas. Our Bank commenced operations in 2006 and we completed our initial public offering in July 2014. Our strategy includes organic growth through high quality loans, and growth through acquisitions. During the quarter ended June 30, 2017, we opened two de novo branches - one in the Baton Rouge market and one in the New Orleans market. We also completed the acquisition of Citizens Bancshares, Inc. ("Citizens"), and its wholly-owned subsidiary, Citizens Bank, located in Evangeline Parish, on July 1, 2017, further expanding our footprint in Louisiana. We currently operate 15 full service branches, including three branches acquired from Citizens. We continue to focus on growing our deposit base in our markets. We have completed three acquisitions since 2011 and regularly evaluate acquisition opportunities.

Our principal business is lending to and accepting deposits from individuals and small to medium-sized businesses in our areas of operation. We generate our income principally from interest on loans and, to a lesser extent, our securities investments, as well as from fees charged in connection with our various loan and deposit services and gains on the sale of securities. Our principal expenses are interest expense on interest-bearing customer deposits and borrowings, salaries, employee benefits, occupancy costs, data processing and other operating expenses. We measure our performance through our net interest margin, return on average assets, and return on average equity, among other metrics, while seeking to maintain appropriate regulatory leverage and risk-based capital ratios.

During the first quarter of 2017, we completed both a common stock offering and a subordinated debt issuance. The common stock offering generated net proceeds of $32.5 million through the issuance of 1.6 million common shares at a price of $21.25 per share. We intend to use the net proceeds from the common stock offering for general corporate purposes and potential strategic acquisitions. We also issued and sold $18.6 million in fixed-to-floating rate subordinated notes due in 2027. We used the net proceeds from the debt issuance to fund a portion of the acquisition of Citizens.

Discussion and Analysis of Financial Condition

For the six months ended June 30, 2017, net income was $3.8 million, or $0.48 per basic share and $0.47 per diluted share, compared to net income of $4.0 million, or $0.56 per basic share and $0.55 per diluted share, for the six months ended June 30, 2016. For the six months ended June 30, 2017, our net interest margin was 3.28%, return on average assets was 0.65%, and return on average equity was 5.71%. From December 31, 2016 to June 30, 2017, total loans increased $39.5 million, or 4.4%, and total deposits decreased $13.0 million, or 1.4%. As of June 30, 2017, the Company and Bank each were in compliance with all regulatory capital requirements, and the Bank was considered "well-capitalized" under the FDIC's prompt corrective action regulations.

Loans

General. Loans constitute our most significant asset, comprising 76.1% and 77.1% of our total assets at June 30, 2017 and December 31, 2016, respectively. Total loans increased $39.5 million, or 4.4%, to $932.9 million at June 30, 2017 compared to $893.4 million at December 31, 2016 as a result of organic growth in our business. Excluding indirect auto loans, total loans increased $60.7 million, or 7.6%, to $862.1 million at June 30, 2017 compared to $801.4 million at December 31, 2016. This represents an annualized growth rate of 15.2%.

The table below sets forth the composition of the Company's loan portfolio as of the dates indicated (dollars in thousands).

	June 30, 2017		December 31, 2016	
	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans
Construction and development	$ 109,627	11.8%	$ 90,737	10.2%
1-4 Family	177,979	19.1	177,205	19.8
Multifamily	46,109	4.9	42,759	4.8
Farmland	8,006	0.9	8,207	0.9
Commercial real estate				
Owner-occupied	185,226	19.8	180,458	20.2
Nonowner-occupied	223,297	23.9	200,258	22.4
Total mortgage loans on real estate	750,244	80.4	699,624	78.3
Commercial and industrial	98,837	10.6	85,377	9.6
Consumer	83,879	9.0	108,425	12.1
Total loans	$ 932,960	100.0%	$ 893,426	100.0%

The following table sets forth loans outstanding at June 30, 2017, which, based on remaining scheduled repayments of principal, are due in the periods indicated. Loans with balloon payments and longer amortizations are often repriced and extended beyond the initial maturity when credit conditions remain satisfactory. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported below as due in one year or less.

(dollars in thousands)	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years Through Fifteen Years	After Fifteen Years	Total
Construction and development	$ 90,081	$ 10,074	$ 7,621	$ 1,359	$ 492	$ 109,627
1-4 Family	24,653	45,139	39,026	26,908	42,253	177,979
Multifamily	2,241	26,884	15,310	113	1,561	46,109
Farmland	3,324	16	2,782	1,884	—	8,006
Commercial real estate						
Owner-occupied	11,678	54,397	74,911	34,485	9,755	185,226
Nonowner-occupied	30,176	87,748	87,421	17,952	—	223,297
Total mortgage loans on real estate	162,153	224,258	227,071	82,701	54,061	750,244
Commercial and industrial	46,557	37,170	14,484	—	626	98,837
Consumer	1,729	70,550	11,106	366	128	83,879
Total loans	$ 210,439	$ 331,978	$ 252,661	$ 83,067	$ 54,815	$ 932,960

Loans Held for Sale. There were no loans held for sale at June 30, 2017 and December 31, 2016. Since the Bank discontinued accepting indirect auto loan applications at the end of 2015, which was the primary source of its consumer loan portfolio and loans held for sale, the consumer loan portfolio is expected to decrease over time, and loans are no longer held for sale. There were no gains on the sale of consumer loans recognized for the six months ended June 30, 2017, compared to $0.3 million for the six months ended June 30, 2016.

Loan Concentrations. Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. At June 30, 2017 and December 31, 2016, we had no concentrations of loans exceeding 10% of total loans other than loans in the categories listed in the table above.

We continue to monitor our loan portfolio for exposure to potential negative impacts of low oil and gas prices. We consider our direct exposure to the energy sector not to be significant, at less than one percent of the total loan portfolio at June 30, 2017. Despite the prolonged suppressed prices of oil and gas, we have not experienced increased losses in our portfolio as a result. However, management continues to monitor the general economic conditions in our South Louisiana markets to consider how they may negatively affect our borrowers and their ability to service their debt.

Investment Securities

We purchase investment securities primarily to provide a source for meeting liquidity needs, with return on investment a secondary consideration. We also use investment securities as collateral for certain deposits and other types of borrowing. Investment securities represented 16.6% of our total assets and totaled $203.0 million at June 30, 2017, an increase of $19.9 million, or 10.9%, from $183.1 million at December 31, 2016. The increase in investment securities at June 30, 2017 compared to December 31, 2016 primarily resulted from purchases of obligations of other U.S. government agencies and corporations.

The table below shows the carrying value of our investment securities portfolio by investment type and the percentage that such investment type comprises of our entire portfolio as of the dates indicated (dollars in thousands).

	June 30, 2017		December 31, 2016	
	Balance	Percentage of Portfolio	Balance	Percentage of Portfolio
Obligations of other U.S. government agencies and corporations	$ 50,205	24.7%	$ 29,490	16.1%
Obligations of state and political subdivisions	38,946	19.2	40,831	22.3
Corporate bonds	14,983	7.4	14,968	8.2
Residential mortgage-backed securities	95,646	47.1	94,703	51.7
Commercial mortgage-backed securities	2,459	1.2	2,444	1.3
Equity securities	805	0.4	706	0.4
Total	$ 203,044	100.0%	$ 183,142	100.0%

The investment portfolio consists of available for sale and held to maturity securities. We classify debt securities as held to maturity if management has the positive intent and ability to hold the securities to maturity. Held to maturity securities are stated at amortized cost. Securities not classified as held to maturity or trading are classified as available for sale. The carrying values of the Company's available for sale securities are adjusted for unrealized gains or losses as valuation allowances, and any gains or losses are reported on an after-tax basis as a component of other comprehensive income. Any expected credit loss due to the inability to collect all amounts due according to the security's contractual terms is recognized as a charge against earnings. Any remaining unrealized loss related to other factors would be recognized in other comprehensive income, net of taxes.

The table below sets forth the stated maturities and weighted average yields of our investment debt securities based on the amortized cost of our investment portfolio as of June 30, 2017 (dollars in thousands).

	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Held to maturity:								
Obligations of states and political subdivisions	$ 685	7.17%	$ 3,095	7.17%	$ 2,745	7.17%	$ 6,238	4.38%
Residential mortgage-backed securities	—	—	—	—	—	—	6,697	2.72
Available for sale:								
Obligations of other U.S. government agencies and corporations	—	—	1,327	2.61	7,742	2.30	41,408	2.45
Obligations of states and political subdivisions	22	3.26	4,324	2.02	2,952	3.02	19,298	4.12
Corporate bonds	900	2.17	4,759	2.50	9,355	3.63	250	4.00
Residential mortgage-backed securities	—	—	—	—	2,905	2.16	86,552	2.14
Commercial mortgage-backed securities	—	—	—	—	2,494	2.10	—	—
	$ 1,607		$ 13,505		$ 28,193		$ 160,443	

The maturity of mortgage-backed securities reflects scheduled repayments based upon the contractual maturities of the securities. Weighted average yields on tax-exempt obligations have been computed on a fully tax equivalent basis assuming a federal tax rate of 35%.

Deposits

The following table sets forth the composition of our deposits and the percentage of each deposit type to total deposits at June 30, 2017 and December 31, 2016 (dollars in thousands).

	June 30, 2017		December 31, 2016	
	Amount	Percentage of Total Deposits	Amount	Percentage of Total Deposits
Noninterest-bearing demand deposits	$ 130,625	14.6%	$ 108,404	11.9%
NOW accounts	171,244	19.1	171,556	18.9
Money market deposit accounts	143,957	16.1	123,079	13.6
Savings accounts	50,945	5.7	52,860	5.8
Time deposits	398,054	44.5	451,888	49.8
Total deposits	$ 894,825	100.0%	$ 907,787	100.0%

Total deposits were $894.8 million at June 30, 2017, a decrease of $13.0 million, or 1.4%, compared to December 31, 2016. The decrease in total deposits was driven by a decrease in time deposits of $53.8 million, or 11.9%, which was offset by increases of $22.2 million, or 20.5%, and $20.9 million, or 17.0%, in noninterest-bearing demand deposits and money market deposit accounts, respectively. In an effort to begin reducing its cost of funds and its dependency on certificates of deposit, during the third quarter of 2016, the Company began lowering its rates on time deposits, particularly Qwikrate® deposits, which are primarily deposits of other financial institutions. As a result of this strategy, as the Qwikrate® deposits have matured, many have not renewed with the Bank, which is the primary driver for the decrease in time deposits.

The following table shows the contractual maturities of certificates of deposit and other time deposits greater than $100,000 at June 30, 2017 and December 31, 2016 (dollars in thousands).

	June 30, 2017		December 31, 2016	
	Certificates of Deposit	Other Time Deposits	Certificates of Deposit	Other Time Deposits
Time remaining until maturity:				
Three months or less	$ 32,908	$ 664	$ 59,639	$ 100
Over three months through six months	20,857	491	25,695	358
Over six months through twelve months	59,990	1,514	20,327	660
Over one year through three years	41,169	960	65,865	1,388
Over three years	6,610	369	8,684	297
	$ 161,534	$ 3,998	$ 180,210	$ 2,803

Borrowings

Total borrowings include securities sold under agreements to repurchase, advances from the Federal Home Loan Bank ("FHLB"), unsecured lines of credit with First National Bankers Bank ("FNBB") and The Independent Bankers Bank ("TIB"), junior subordinated debentures, and a secured revolving line of credit with TIB. In addition, in connection with its definitive agreement to acquire Citizens, on March 24, 2017, the Company issued and sold $18.6 million in aggregate principal amount of its 6.00% Fixed-to-Floating Rate Subordinated Notes ("Notes") due March 30, 2027. Beginning on March 30, 2022, the Company may redeem the Notes, in whole or in part, at their principal amount plus any accrued and unpaid interest. The Notes bear an interest rate of 6.00% per annum until March 30, 2022, on which date the interest rate will reset quarterly to an annual interest rate equal to the then-current LIBOR plus 394.5 basis points. The Company used the net proceeds of the Notes sale to fund a portion of its acquisition of Citizens, which closed on July 1, 2017.

Securities sold under agreements to repurchase decreased $2.3 million to $36.7 million at June 30, 2017 from $39.1 million at December 31, 2016. Our advances from the FHLB were $109.3 million at June 30, 2017, an increase of $26.5 million, or 32.0%, from FHLB advances of $82.8 million at December 31, 2016. We had no outstanding balance drawn on an unsecured line of credit at June 30, 2017 or December 31, 2016. There was no outstanding balance on the secured revolving line of credit with TIB at June 30, 2017 compared to $1.0 million at December 31, 2016. The $3.6 million in junior subordinated debt at June 30, 2017 and December 31, 2016 represents the junior subordinated debentures that we assumed through acquisition. The carrying value of subordinated debt was $18.1 million at June 30, 2017. The subordinated debt securities were recorded net of issuance costs of $0.5 million.

The average balances and cost of funds of short-term borrowings for the six months ended June 30, 2017 and 2016 are summarized in the table below (dollars in thousands).

	Average Balances		Cost of Funds	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Federal funds purchased and other short-term borrowings	$ 92,432	$ 88,118	1.28%	1.01%
Securities sold under agreements to repurchase	37,000	29,938	0.24	0.20
Total short-term borrowings	$ 129,432	$ 118,056	0.99%	0.80%

Results of Operations

Performance Summary

Three months ended June 30, 2017 vs. three months ended June 30, 2016. For the three months ended June 30, 2017, net income was $1.9 million, or $0.22 per basic and diluted share, compared to net income of $2.0 million, or $0.28 per basic and diluted share for the three months ended June 30, 2016. Return on average assets decreased to 0.64% for the three months ended June 30, 2017 compared to 0.74% for the three months ended June 30, 2016, primarily due to a $112.3 million increase in average assets for the quarter ended June 30, 2017 and the benefit of having a gain on sale of fixed assets of $1.3 million in the quarter ended June 30, 2016 from the sale of the land and building of one of our branch locations. Return on average equity was 5.15% for the three months ended June 30, 2017 compared to 7.18% for the three months ended June 30, 2016, primarily due to a $37.7 million increase in average equity, which resulted from a public offering of common stock in the first quarter of 2017, generating net proceeds of $32.5 million.

Six months ended June 30, 2017 vs. Six months ended June 30, 2016. For the six months ended June 30, 2017, net income was $3.8 million, or $0.48 per basic share and $0.47 per diluted share, compared to net income of $4.0 million, or $0.56 per basic share and $0.55 diluted share for the six months ended June 30, 2016. The decrease in basic and diluted earnings per share is mainly attributable to the increase in the weighted average number of common shares outstanding, which is primarily a result of the 1.6 million shares issued in a public offering at the end of the first quarter of 2017. Return on average assets decreased to 0.65% for the six months ended June 30, 2017 compared to 0.75% for the six months ended June 30, 2016. Return on average equity was 5.71% for the six months ended June 30, 2017 compared to 7.19% for the six months ended June 30, 2016.

Net Interest Income

Net interest income, which is the largest component of our earnings, is the difference between interest earned on assets, such as loans and investments, and the cost of interest-bearing liabilities, such as deposits and borrowings. The primary factors affecting net interest income are the volume, yield and mix of our rate-sensitive assets and liabilities, as well as the amount of our nonperforming loans and the interest rate environment.

Three months ended June 30, 2017 vs. three months ended June 30, 2016. Net interest income increased 7.4% to $9.3 million for the three months ended June 30, 2017 compared to $8.7 million for the same period in 2016. This increase is due primarily to the $61.8 million and $40.8 million increases in average loans and average investment securities, respectively, when compared to the same period in 2016, resulting in a $1.1 million increase in interest income, discussed in more detail below. Average interest-bearing deposits increased approximately $6.0 million and average short- and long-term borrowings increased $50.4 million for the three months ended June 30, 2017 when compared to the same period in 2016, resulting in a $0.5 million increase in interest expense, also discussed in more detail below. The increases in both average interest-earning assets and interest-bearing liabilities are a result of organic growth of the Company.

Interest income was $11.8 million for the three months ended June 30, 2017 compared to $10.7 million for the same period in 2016. Loan interest income made up substantially all of our interest income for the three months ended June 30, 2017 and 2016. Increases in interest income can be attributed to an increase in the volume of interest-earning assets. The overall yield on interest-earning assets was 4.18% for the three months ended June 30, 2017 and 2016. The loan portfolio yielded 4.63% for the three months ended June 30, 2017 compared to 4.60% for the three months ended June 30, 2016, while the yield on the investment portfolio was 2.47% for the three months ended June 30, 2017 compared to 2.32% for the three months ended June 30, 2016.

Interest expense was $2.5 million for the three months ended June 30, 2017, an increase of $0.4 million compared to interest expense of $2.1 million for the three months ended June 30, 2016, as a result of an increase of $0.1 million attributed to volume and $0.3 million attributed to the increase in the rate of interest-bearing liabilities. Average interest-bearing liabilities increased approximately $56.4 million for the three months ended June 30, 2017 compared to the same period in 2016 mainly as a result of a $50.4 million increase in short- and long-term borrowings. The increase in short-term borrowings is attributable to our liquidity needs, while the increase in long-term borrowings is a result of the Company's sale of its Notes, discussed in *Borrowings* above. The cost of interest-bearing liabilities increased 15 basis points to 1.10% for the three months ended June 30, 2017 compared to 0.95% for the same period in 2016, primarily as a result of an increase in the cost of short- and long-term borrowings.

Net interest margin was 3.28% for the three months ended June 30, 2017, a decrease of 10 basis points from 3.38% for the three months ended June 30, 2016. The decrease in net interest margin is attributable to the 15 basis point increase in the overall cost of funds.

Average Balances and Yields. The following table sets forth average balance sheet data, including all major categories of interest-earning assets and interest-bearing liabilities, together with the interest earned or paid and the average yield or rate paid on each such category for the three months ended June 30, 2017 and 2016. Averages presented in the table below are daily averages (dollars in thousands).

	Three months ended June 30,					
	2017			2016		
	Average Balance	Interest Income/ Expense [(1)]	Yield/ Rate[(1)]	Average Balance	Interest Income/ Expense[(1)]	Yield/ Rate[(1)]
Assets						
Interest-earning assets:						
Loans	$ 914,265	$ 10,559	4.63%	$ 852,475	$ 9,781	4.60%
Securities:						
Taxable	165,689	1,013	2.45	129,126	732	2.27
Tax-exempt	29,375	186	2.54	25,105	159	2.54
Interest-earning balances with banks	28,423	86	1.21	21,654	47	0.87
Total interest-earning assets	1,137,752	11,844	4.18	1,028,360	10,719	4.18
Cash and due from banks	8,213			7,647		
Intangible assets	3,217			3,258		
Other assets	56,919			54,123		
Allowance for loan losses	(7,223)			(6,784)		
Total assets	$ 1,198,878			$ 1,086,604		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	$ 291,902	$ 524	0.72%	$ 247,052	$ 393	0.64%
Savings deposits	51,474	83	0.65	52,728	88	0.67
Time deposits	402,271	1,220	1.22	439,898	1,282	1.17
Total interest-bearing deposits	745,647	1,827	0.98	739,678	1,763	0.96
Short-term borrowings	137,848	350	1.02	103,274	229	0.89
Long-term debt	39,285	365	3.73	23,434	69	1.18
Total interest-bearing liabilities	922,780	2,542	1.10	866,386	2,061	0.95
Noninterest-bearing deposits	116,714			95,537		
Other liabilities	9,671			12,646		
Stockholders' equity	149,713			112,035		
Total liabilities and stockholders' equity	$ 1,198,878			$ 1,086,604		
Net interest income/net interest margin		$ 9,302	3.28%		$ 8,658	3.38%

(1) Interest income and net interest margin are expressed as a percentage of average interest-earning assets outstanding for the indicated periods. Interest expense is expressed as a percentage of average interest-bearing liabilities for the indicated periods.

Volume/Rate Analysis. The following table sets forth a summary of the changes in interest earned and interest paid resulting from changes in volume and rates for the three months ended June 30, 2017 compared to the same period in 2016 (dollars in thousands).

	Three months ended June 30, 2017 vs. three months ended June 30, 2016		
	Volume	Rate	Net[(1)]
Interest income:			
Loans	$ 709	$ 69	$ 778
Securities:			
Taxable	207	74	281
Tax-exempt	27	—	27
Interest-earning balances with banks	15	24	39
Total interest-earning assets	958	167	1,125
Interest expense:			
Interest-bearing demand deposits	71	60	131
Savings deposits	(2)	(3)	(5)
Time deposits	(110)	48	(62)
Short-term borrowings	77	44	121
Long-term debt	47	249	296
Total interest-bearing liabilities	83	398	481
Change in net interest income	$ 875	$ (231)	$ 644

(1) Changes in interest due to both volume and rate have been allocated on a pro-rata basis using the absolute ratio value of amounts calculated.

Six months ended June 30, 2017 vs. six months ended June 30, 2016. Net interest income increased 5.6% to $18.2 million for the six months ended June 30, 2017 from $17.2 million for the same period in 2016. This increase is primarily due to the $61.0 million and $43.0 million increases in average loans and average investment securities, respectively, when compared to the same period in 2016, resulting in a $1.8 million increase in interest income, discussed in more detail below. Average interest-bearing deposits and average short- and long-term borrowings increased approximately $53.6 million and $16.6 million, respectively, for the six months ended June 30, 2017 when compared to the same period in 2016, resulting in a $0.9 million increase in interest expense, also discussed in more detail below. The increases in both average interest-earning assets and interest-bearing liabilities are a result of organic growth of the Company.

Interest income was $22.9 million for the six months ended June 30, 2017, an increase of $1.8 million, or 8.7%, compared to $21.1 million for the same period in 2016. Loan interest income made up substantially all of our interest income for the six months ended June 30, 2017 and 2016. The increase in interest income was a direct result of continued growth of the Company's loan and investment portfolios, with an increase in interest income of $1.9 million due to an increase in volume offset by a $0.1 million decrease related to a reduction in yield. The overall yield on interest-earning assets decreased 6 basis points to 4.14% for the six months ended June 30, 2017 compared to 4.20% for the same period in 2016. The loan portfolio yielded 4.59% for the six months ended June 30, 2017 and 2016. The yield on the investment portfolio was 2.39% for the six months ended June 30, 2017 compared to 2.42% for the six months ended June 30, 2016.

Interest expense was $4.8 million for the six months ended June 30, 2017, an increase of $0.9 million compared to interest expense of $3.9 million for the six months ended June 30, 2016, as a result of increases in both the volume and cost of interest-bearing liabilities. Average interest-bearing liabilities increased approximately $70.2 million for the six months ended June 30, 2017 compared to the same period in 2016, resulting from our organic deposit growth, an increase in short-term borrowings to fund liquidity needs, and an increase in long-term borrowings from the issuance and sale of the Company's Notes, discussed in *Borrowings* above. The cost of interest-bearing liabilities increased 12 basis points to 1.04% for the six months ended June 30, 2017 compared to 0.92% for the same period in 2016, primarily as a result of the cost of short- and long-term borrowings and an increase in rates offered to our customers for interest-bearing deposits.

Net interest margin was 3.28% for the six months ended June 30, 2017, down 14 basis points from 3.42% for the six months ended June 30, 2016. The decrease in net interest margin is attributable to the decrease in the overall yield on interest-earning assets and the increase in the cost of interest-bearing liabilities discussed above.

Average Balances and Yields. The following table sets forth average balance sheet data, including all major categories of interest-earning assets and interest-bearing liabilities, together with the interest earned or paid and the average yield or rate paid on each such category for the six months ended June 30, 2017 and 2016. Averages presented in the table below are daily averages (dollars in thousands).

	Six months ended June 30,					
	2017			2016		
	Average Balance	Interest Income/ Expense [(1)]	Yield/ Rate[(1)]	Average Balance	Interest Income/ Expense[(1)]	Yield/ Rate[(1)]
Assets						
Interest-earning assets:						
Loans	$ 903,466	$ 20,563	4.59%	$ 842,420	$ 19,266	4.59%
Securities:						
Taxable	157,957	1,852	2.36	121,286	1,444	2.39
Tax-exempt	29,955	376	2.53	23,652	303	2.57
Interest-earning balances with banks	26,517	146	1.12	21,210	84	0.79
Total interest-earning assets	1,117,895	22,937	4.14	1,008,568	21,097	4.20
Cash and due from banks	8,379			7,435		
Intangible assets	3,222			3,219		
Other assets	56,058			53,123		
Allowance for loan losses	(7,174)			(6,546)		
Total assets	$ 1,178,380			$ 1,065,799		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	$ 291,878	$ 1,011	0.70%	$ 243,448	$ 773	0.64%
Savings deposits	52,350	169	0.65	52,936	177	0.67
Time deposits	417,635	2,500	1.21	411,868	2,328	1.13
Total interest-bearing deposits	761,863	3,680	0.97	708,252	3,278	0.93
Short-term borrowings	129,432	633	0.99	118,056	473	0.80
Long-term debt	30,280	462	3.08	25,050	141	1.13
Total interest-bearing liabilities	921,575	4,775	1.04	851,358	3,892	0.92
Noninterest-bearing deposits	113,579			91,428		
Other liabilities	9,532			11,559		
Stockholders' equity	133,694			111,454		
Total liabilities and stockholders' equity	$ 1,178,380			$ 1,065,799		
Net interest income/net interest margin		$ 18,162	3.28%		$ 17,205	3.42%

(1) Interest income and net interest margin are expressed as a percentage of average interest-earning assets outstanding for the indicated periods. Interest expense is expressed as a percentage of average interest-bearing liabilities for the indicated periods.

Volume/Rate Analysis. The following table sets forth a summary of the changes in interest earned and interest paid resulting from changes in volume and rates for the six months ended June 30, 2017 compared to the same period in 2016 (dollars in thousands).

	Six months ended June 30, 2017 vs. six months ended June 30, 2016		
	Volume	**Rate**	**Net[1]**
Interest income:			
Loans	$ 1,396	$ (99)	$ 1,297
Securities:			
Taxable	436	(28)	408
Tax-exempt	81	(8)	73
Interest-earning balances with banks	21	41	62
Total interest-earning assets	1,934	(94)	1,840
Interest expense:			
Interest-bearing demand deposits	154	84	238
Savings deposits	(2)	(6)	(8)
Time deposits	33	139	172
Short-term borrowings	46	114	160
Long-term debt	29	292	321
Total interest-bearing liabilities	260	623	883
Change in net interest income	$ 1,674	$ (717)	$ 957

(1) Changes in interest due to both volume and rate have been allocated on a pro-rata basis using the absolute ratio value of amounts calculated.

Noninterest Income

Noninterest income includes, among other things, fees generated from our deposit services, gain on sale of investment securities, fixed assets, other real estate owned, loans, servicing fees and fee income on serviced loans. We expect to continue to develop new products that generate noninterest income, and enhance our existing products, in order to diversify our revenue sources.

Three months ended June 30, 2017 vs. three months ended June 30, 2016. Total noninterest income decreased $1.5 million, or 64.5%, to $0.8 million for the three months ended June 30, 2017 compared to $2.3 million for the three months ended June 30, 2016. The decrease in noninterest income is mainly attributable to the $1.3 million decrease in the gain on sale of fixed assets. During the three months ended June 30, 2016, the Company recognized a $1.3 million gain on sale of fixed assets for the sale of the land and building of one of the Bank's branch locations to a healthcare company.

Servicing fees and fee income on serviced loans, which are fees collected for servicing loans which have been sold and are held in our servicing portfolio, decreased $0.1 million, or 29.6%, to $0.4 million for the three months ended June 30, 2017 compared to $0.5 million for the same period in 2016. The Bank's servicing portfolio primarily consists of indirect auto loans. As this portfolio of loans ages, and consequently decreases in principal value, the servicing fees and fee income on serviced loans earned will continue to decrease.

Six months ended June 30, 2017 vs. six months ended June 30, 2016. Total noninterest income decreased $1.8 million, or 52.4% to $1.7 million for the six months ended June 30, 2017 compared to $3.5 million for the six months ended June 30, 2016. The decrease in noninterest income is mainly attributable to the $1.2 million decrease in gain on sale of fixed assets when compared to the six months ended June 30, 2016, discussed above. There were also $0.3 million decreases in both gain on sale of loans and servicing fees and fee income on serviced loans when compared to the six months ended June 30, 2017.

Other operating income primarily consists of interchange fees, credit card fees, ATM surcharge income, and the net change in the value of bank owned life insurance, among other items. Other operating income was $0.5 million for the six months ended June 30, 2017 compared to $0.4 million for the same period in 2016.

Noninterest Expense

Three months ended June 30, 2017 vs. three months ended June 30, 2016. Total noninterest expense was $6.9 million for the three months ended June 30, 2017, a decrease of $0.2 million, or 2.5%, compared to the same period in 2016. The decrease is mainly attributable to a $0.6 million decrease in customer reimbursements, which were paid to certain borrowers in the second quarter of 2016, offset by $0.2 million increases in both salaries and employee benefits and other operating expenses. The increase in other operating expenses was driven by increases in bank shares taxes and expenses related to other real estate owned, as well as a write-down of repossessed equipment. The increase in salaries and employee benefits is mainly attributable to additional lenders hired at the end of the first quarter of 2017. In addition, the Company opened two de novo branch locations in June 2017 which required the hiring of additional employees.

Six months ended June 30, 2017 vs. six months ended June 30, 2016. Total noninterest expense was $13.6 million for the six months ended June 30, 2017, an increase of $0.1 million, or 0.9%, compared to the same period in 2016. Increases in salaries and benefits and other operating expenses were offset by decreases in professional fees, marketing, and $0.6 million in customer reimbursements paid to certain borrowers during the second quarter of 2016.

Although we are focused on growth, both organically and through acquisition, we are committed to managing our costs within the framework of our operating strategy.

Income Tax Expense

Income tax expense for the three months ended June 30, 2017 was $0.9 million, a decrease of $0.1 million, compared to the three months ended June 30, 2016. The effective tax rate for the three months ended June 30, 2017 and 2016 was 31.3% and 33.4%, respectively.

Income tax expense for the six months ended June 30, 2017 was $1.7 million, a decrease of $0.3 million compared to the six months ended June 30, 2016. The effective tax rate for the six months ended June 30, 2017 and 2016 was 31.3% and 33.5%, respectively.

Risk Management

The primary risks associated with our operations are credit, interest rate and liquidity risk. Credit and interest rate risk are discussed below, while liquidity risk is discussed in this section under the heading *Liquidity and Capital Resources* below.

Credit Risk and the Allowance for Loan Losses

General. The risk of loss should a borrower default on a loan is inherent in any lending activity. Our portfolio and related credit risk are monitored and managed on an ongoing basis by our risk management department, the board of directors' loan committee and the full board of directors. We utilize a ten point risk-rating system, which assigns a risk grade to each borrower based on a number of quantitative and qualitative factors associated with a loan transaction. The risk grade categorizes the loan into one of five risk categories, based on information about the ability of borrowers to service the debt. The information includes, among other factors, current financial information about the borrower, historical payment experience, credit documentation, public information and current economic trends. These categories assist management in monitoring our credit quality. The following describes each of the risk categories, which are consistent with the definitions used in guidance promulgated by federal banking regulators.

- *Pass (grades 1-6)* – Loans not falling into one of the categories below are considered pass. These loans have high credit characteristics and financial strength. The borrowers at least generate profits and cash flow that are in line with peer and industry standards and have debt service coverage ratios above loan covenants and our policy guidelines. For some of these loans, a guaranty from a financially capable party mitigates characteristics of the borrower that might otherwise result in a lower grade.
- *Special Mention (grade 7)* – Loans classified as special mention possess some credit deficiencies that need to be corrected to avoid a greater risk of default in the future. For example, financial ratios relating to the borrower may have deteriorated. Often, a special mention categorization is temporary while certain factors are analyzed or matters addressed before the loan is re-categorized as either pass or substandard.
- *Substandard (grade 8)* – Loans rated as substandard are inadequately protected by the current net worth and paying capacity of the borrower or the liquidation value of any collateral. If deficiencies are not addressed, it is likely that this category of loan will result in the Bank incurring a loss. Where a borrower has been unable to adjust to industry or general economic conditions, the borrower's loan is often categorized as substandard.

- *Doubtful (grade 9)* – Doubtful loans are substandard loans with one or more additional negative factors that makes full collection of amounts outstanding, either through repayment or liquidation of collateral, highly questionable and improbable.
- *Loss (grade 10)* – Loans classified as loss have deteriorated to such a point that it is not practicable to defer writing off the loan. For these loans, all efforts to remediate the loan's negative characteristics have failed and the value of the collateral, if any, has severely deteriorated relative to the amount outstanding. Although some value may be recovered on such a loan, it is not significant in relation to the amount borrowed.

At June 30, 2017 and December 31, 2016, there were no loans classified as doubtful or loss, while there were $5.1 million and $3.7 million, respectively, of loans classified as substandard. At June 30, 2017 and December 31, 2016, $0.4 million and $0.6 million, respectively, of loans were classified as special mention.

An external loan review consultant is engaged annually by the risk management department to review approximately 60% of commercial loans, utilizing a risk-based approach designed to maximize the effectiveness of the review. In addition, credit analysts periodically review smaller dollar commercial loans to identify negative financial trends related to any one borrower, any related groups of borrowers or an industry. All loans not categorized as pass are put on an internal watch list, with quarterly reports to the board of directors. In addition, a written status report is maintained by our special assets division for all commercial loans categorized as substandard or worse. We use this information in connection with our collection efforts.

If our collection efforts are unsuccessful, collateral securing loans may be repossessed and sold or, for loans secured by real estate, foreclosure proceedings initiated. The collateral is sold at public auction for fair market value, with fees associated with the foreclosure being deducted from the sales price. The purchase price is applied to the outstanding loan balance. If the loan balance is greater than the sales proceeds, the deficient balance is charged-off.

Allowance for Loan Losses. The allowance for loan losses is an amount that management believes will be adequate to absorb probable losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on an ongoing analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment as recognized under ASC 450, *Contingencies*. Collective impairment is calculated based on loans grouped by type. Another component of the allowance is losses on loans assessed as impaired under ASC 310, *Receivables*. The balance of these loans and their related allowance is included in management's estimation and analysis of the allowance for loan losses. Other considerations in establishing the allowance for loan losses include the nature and volume of the loan portfolio, overall portfolio quality, historical loan loss, review of specific problem loans and current economic conditions that may affect our borrowers' ability to pay, as well as trends within each of these factors. The allowance for loan losses is established after input from management as well as our risk management department and our special assets committee. We evaluate the adequacy of the allowance for loan losses on a quarterly basis. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses was $7.3 million at June 30, 2017, up from $7.1 million at December 31, 2016, as we increased our loan loss provisioning to reflect our nonperforming loans and organic loan growth.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Determination of impairment is treated the same across all classes of loans. Impairment is measured on a loan-by-loan basis for, among others, all loans of $500,000 or greater and nonaccrual loans. When we identify a loan as impaired, we measure the extent of the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loans is the operation or liquidation of the collateral. In these cases when foreclosure is probable, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. For real estate collateral, the fair value of the collateral is based upon a recent appraisal by a qualified and licensed appraiser. If we determine that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), we recognize impairment through an allowance estimate or a charge-off recorded against the allowance. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual, contractual interest is credited to interest income when received, under the cash basis method.

Impaired loans at June 30, 2017 were $3.5 million compared to $4.4 million at December 31, 2016. At June 30, 2017 and December 31, 2016, $0.3 million and $0.4 million, respectively, of the allowance for loan losses was specifically allocated to impaired loans.

The provision for loan losses is a charge to expense in an amount that management believes is necessary to maintain an adequate allowance for loan losses. The provision is based on management's regular evaluation of current economic conditions in our specific markets as well as regionally and nationally, changes in the character and size of the loan portfolio, underlying collateral values securing loans, and other factors which deserve recognition in estimating loan losses. For the three months ended June 30, 2017 and 2016, the provision for loan losses was $0.4 million and $0.8 million, respectively. The $0.8 million provision for loan losses for the three months ended June 30, 2016 is mainly attributable to a specific reserve recorded against a $2.7 million commercial and industrial loan relationship that was not performing at June 30, 2016. This loan relationship was subsequently resolved without any additional adverse impact to the financial statements.

Acquired loans that are accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"), were marked to market on the date we acquired the loans to values which, in management's opinion, reflected the estimated future cash flows, based on the facts and circumstances surrounding each respective loan at the date of acquisition. We continually monitor these loans as part of our normal credit review and monitoring procedures for changes in the estimated future cash flows. Because ASC 310-30 does not permit carry over or recognition of an allowance for loan losses, we may be required to reserve for these loans in the allowance for loan losses through future provision for loan losses if future cash flows deteriorate below initial projections.

The following table presents the allocation of the allowance for loan losses by loan category as of the dates indicated (dollars in thousands).

	June 30, 2017	December 31, 2016
Construction and development	$ 806	$ 579
1-4 Family	1,276	1,377
Multifamily	361	355
Farmland	54	60
Commercial real estate	3,036	2,499
Total mortgage loans on real estate	5,533	4,870
Commercial and industrial	683	759
Consumer	1,104	1,422
Total	$ 7,320	$ 7,051

As discussed above, the balance in the allowance for loan losses is principally influenced by the provision for loan losses and by net loan loss experience. Additions to the allowance are charged to the provision for loan losses. Losses are charged to the allowance as incurred and recoveries on losses previously charged to the allowance are credited to the allowance at the time recovery is collected. The table below reflects the activity in the allowance for loan losses for the periods indicated (dollars in thousands).

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Allowance at beginning of period	$ 7,243	$ 6,463	$ 7,051	$ 6,128
Provision for loan losses	375	800	725	1,254
Charge-offs:				
Mortgage loans on real estate:				
Construction and development	—	(7)	—	(14)
1-4 Family	—	—	—	(7)
Commercial and industrial	(193)	—	(193)	—
Consumer	(121)	(173)	(287)	(315)
Total charge-offs	(314)	(180)	(480)	(336)
Recoveries				
Mortgage loans on real estate:				
Construction and development	11	3	14	6
1-4 Family	1	1	2	8
Commercial real estate	—	—	—	1
Commercial and industrial	—	—	—	20
Consumer	4	4	8	10
Total recoveries	16	8	24	45
Net charge-offs	(298)	(172)	(456)	(291)
Balance at end of period	$ 7,320	$ 7,091	$ 7,320	$ 7,091
Net charge-offs to:				
Loans - average	0.03%	0.02%	0.05%	0.04%
Allowance for loan losses	4.07%	2.43%	6.23%	4.10%
Allowance for loan losses to:				
Total loans	0.78%	0.87%	0.78%	0.87%
Nonperforming loans	627.63%	129.59%	627.63%	129.59%

The allowance for loan losses to total loans ratio decreased to 0.78% at June 30, 2017 compared to 0.87% at June 30, 2016. The allowance for loan losses to nonperforming loans ratio increased to 627.63% at June 30, 2017 compared to 129.59% at June 30, 2016. The increase in the allowance for loan losses to nonperforming loans ratio at June 30, 2017 is due to a $4.3 million decrease in nonperforming loans compared to June 30, 2016. Nonperforming loans were $1.2 million, or 0.13% of total loans at June 30, 2017, compared to $2.0 million, or 0.22% of total loans at December 31, 2016, and $5.5 million, or 0.67% of total loans at June 30, 2016.

Charge-offs reflect the realization of losses in the portfolio that were recognized previously through the provision for loan losses. Net charge-offs for the three and six months ended June 30, 2017 were $0.3 million and $0.5 million, respectively, equal to 0.03% and 0.05%, respectively, of our average loan balance as of that date. Net charge-offs for the three and six months ended June 30, 2016 were $0.2 million and $0.3 million, respectively, equal to 0.02% and 0.04%, respectively, of our average loan balance as of that date.

Management believes the allowance for loan losses at June 30, 2017 is sufficient to provide adequate protection against losses in our portfolio. Although the allowance for loan losses is considered adequate by management, there can be no assurance that this allowance will prove to be adequate over time to cover ultimate losses in connection with our loans. This allowance may prove to be inadequate due to unanticipated adverse changes in the economy or discrete events adversely affecting specific customers or industries. Our results of operations and financial condition could be materially adversely affected to the extent that the allowance is insufficient to cover such changes or events.

Nonperforming Assets and Restructured Loans. Nonperforming assets consist of nonperforming loans and other real estate owned. Nonperforming loans are those on which the accrual of interest has stopped or loans which are contractually 90 days past due on which interest continues to accrue. Loans are ordinarily placed on nonaccrual when a loan is specifically determined to be impaired or when principal and interest is delinquent for 90 days or more. However, management may elect to continue the accrual when the estimated net available value of collateral is sufficient to cover the principal balance and accrued interest. It is our policy to discontinue the accrual of interest income on any loan for which we have reasonable doubt as to the payment of interest or principal. Nonaccrual loans are returned to accrual status when the financial position of the borrower indicates there is no longer any reasonable doubt as to the payment of principal or interest.

Another category of assets which contributes to our credit risk is troubled debt restructurings ("TDR"), or restructured loans. A restructured loan is a loan for which a concession that is not insignificant has been granted to the borrower due to a deterioration of the borrower's financial condition and which is performing in accordance with the new terms. Such concessions may include reduction in interest rates, deferral of interest or principal payments, principal forgiveness and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. We strive to identify borrowers in financial difficulty early and work with them to modify their loans to more affordable terms before such loan reaches nonaccrual status. In evaluating whether to restructure a loan, management analyzes the long-term financial condition of the borrower, including guarantor and collateral support, to determine whether the proposed concessions will increase the likelihood of repayment of principal and interest. Restructured loans that are not performing in accordance with their restructured terms that are either contractually 90 days past due or placed on nonaccrual status are reported as nonperforming loans.

There were eighteen loans classified as TDRs at both June 30, 2017 and December 31, 2016 that totaled approximately $2.4 million. Eight restructured loans were considered TDRs due to a modification of terms through adjustments to maturity, nine restructured loans were considered TDRs due to a reduction in the interest rate to a rate lower than the current market rate, and one restructured loan was considered a TDR due to modification of terms through principal payment forbearance only for a specified period of time. As of June 30, 2017 and December 31, 2016, all restructured loans were performing under their modified terms. The Company individually evaluates each TDR for allowance purposes, primarily based on collateral value, and excludes these loans from the loan population that is collectively evaluated for impairment.

The following table shows the principal amounts of nonperforming and restructured loans as of the dates indicated. All loans where information exists about possible credit problems that would cause us to have serious doubts about the borrower's ability to comply with the current repayment terms of the loan have been reflected in the table below (dollars in thousands).

	June 30, 2017	December 31, 2016
Nonaccrual loans	$ 1,165	$ 1,978
Accruing loans past due 90 days or more	1	1
Total nonperforming loans	1,166	1,979
Restructured loans	2,359	2,399
Total nonperforming and restructured loans	$ 3,525	$ 4,378
Interest income recognized on nonperforming and restructured loans	$ 79	$ 169
Interest income foregone on nonperforming and restructured loans	$ 40	$ 159

Nonperforming loans are comprised of accruing loans past due 90 days or more and nonaccrual loans. Nonperforming loans outstanding represented 0.13% and 0.22% of total loans at June 30, 2017 and December 31, 2016, respectively.

Other Real Estate Owned. Other real estate owned consists of properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure. These properties are carried at the lower of cost or fair market value based on appraised value less estimated selling costs. Losses arising at the time of foreclosure of properties are charged to the allowance for loan losses. Other real estate owned with a cost basis of $32,000 and $52,000 was sold during the three and six months ended June 30, 2017, respectively, resulting in a net loss of $10,000 and $5,000 for the respective periods. For the three and six months ended June 30, 2016, other real estate owned with a cost basis of $0.4 million and $0.5 million was sold resulting in a net gain of $10,000 and $11,000, respectively, for the periods.

The table below provides details of our other real estate owned as of the dates indicated (dollars in thousands).

	June 30, 2017	December 31, 2016
Construction and development	$ 218	$ 270
Commercial real estate	3,612	3,795
Total other real estate owned	$ 3,830	$ 4,065

Changes in our other real estate owned are summarized in the table below for the periods indicated (dollars in thousands).

	Six months ended June 30,	
	2017	2016
Balance, beginning of period	$ 4,065	$ 725
Transfers from acquired loans	—	30
Sales of other real estate owned	(52)	(469)
Write-downs	(183)	(7)
Balance, end of period	$ 3,830	$ 279

Interest Rate Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Since the majority of our assets and liabilities are monetary in nature, our market risk arises primarily from interest rate risk inherent in our lending and deposit activities. A sudden and substantial change in interest rates may adversely impact our earnings and profitability because the interest rates borne by assets and liabilities do not change at the same speed, to the same extent or on the same basis. Accordingly, our ability to proactively structure the volume and mix of our assets and liabilities to address anticipated changes in interest rates, as well as to react quickly to such fluctuations, can significantly impact our financial results. To that end, management actively monitors and manages our interest rate risk exposure.

The Asset Liability Committee ("ALCO") has been authorized by the board of directors to implement our asset/liability management policy, which establishes guidelines with respect to our exposure to interest rate fluctuations, liquidity, loan limits as a percentage of funding sources, exposure to correspondent banks and brokers and reliance on non-core deposits. The goal of the policy is to enable us to maximize our interest income and maintain our net interest margin without exposing the Bank to excessive interest rate risk, credit risk and liquidity risk. Within that framework, the ALCO monitors our interest rate sensitivity and makes decisions relating to our asset/liability composition.

We monitor the impact of changes in interest rates on our net interest income using gap analysis. The gap represents the net position of our assets and liabilities subject to repricing in specified time periods. During any given time period, if the amount of rate-sensitive liabilities exceeds the amount of rate-sensitive assets, a financial institution would generally be considered to have a negative gap position and would benefit from falling rates over that period of time. Conversely, a financial institution with a positive gap position would generally benefit from rising rates.

Within the gap position that management directs, we attempt to structure our assets and liabilities to minimize the risk of either a rising or falling interest rate environment. We manage our gap position for time horizons of one month, two months, three months, 4-6 months, 7-12 months, 13-24 months, 25-36 months, 37-60 months and more than 60 months. The goal of our asset/liability management is for the Bank to maintain a net interest income at risk in an up or down 100 basis point environment at less than (5)%. At June 30, 2017, the Bank was within the policy guidelines for asset/liability management.

The table below depicts the estimated impact on net interest income of immediate changes in interest rates at the specified levels.

As of June 30, 2017	
Changes in Interest Rates (in basis points)	Estimated Increase/Decrease in Net Interest Income [(1)]
+300	(1.8)%
+200	(1.0)%
+100	(0.4)%
-100	4.4 %
-200	2.4 %
-300	2.3 %

(1) The percentage change in this column represents the projected net interest income for 12 months on a flat balance sheet in a stable interest rate environment versus the projected net interest income in the various rate scenarios.

The computation of the prospective effects of hypothetical interest rate changes requires numerous assumptions regarding characteristics of new business and the behavior of existing positions. These business assumptions are based upon our experience, business plans and published industry experience. Key assumptions include asset prepayment speeds, competitive factors, the relative price sensitivity of certain assets and liabilities and the expected life of non-maturity deposits. However, there are a number of factors that influence the effect of interest rate fluctuations on us which are difficult to measure and predict. For example, a rapid drop in interest rates might cause our loans to repay at a more rapid pace and certain mortgage-related investments to prepay more quickly than projected. Conversely, a rapid rise in rates could give us an opportunity to increase our margins and stifle the rate of repayment on our mortgage-related loans which would increase our returns. As a result, because these assumptions are inherently uncertain, actual results will differ from simulated results.

Liquidity and Capital Resources

Liquidity. Liquidity is a measure of the ability to fund loan commitments and meet deposit maturities and withdrawals in a timely and cost-effective way. Cash flow requirements can be met by generating net income, attracting new deposits, converting assets to cash or borrowing funds. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows, loan prepayments, loan sales and borrowings are greatly influenced by general interest rates, economic conditions and the competitive environment in which we operate. To minimize funding risks, we closely monitor our liquidity position through periodic reviews of maturity profiles, yield and rate behaviors, and loan and deposit forecasts. Excess short-term liquidity is usually invested in overnight federal funds sold.

Our core deposits, which are deposits excluding time deposits greater than $250,000 and deposits of municipalities and other political entities, are our most stable source of liquidity to meet our cash flow needs due to the nature of the long-term relationships generally established with our customers. Maintaining the ability to acquire these funds as needed in a variety of markets, and within ALCO compliance targets, is essential to ensuring our liquidity. At June 30, 2017 and December 31, 2016, 68.2% and 75.9% of our total assets, respectively, were funded by core deposits.

Our investment portfolio is another alternative for meeting our cash flow requirements. Investment securities generate cash flow through principal payments and maturities, and they generally have readily available markets that allow for their conversion to cash. Some securities are pledged to secure certain deposit types or short-term borrowings, such as FHLB advances, which impacts their liquidity. At June 30, 2017, securities with a carrying value of $73.0 million were pledged to secure certain deposits, borrowings, and other liabilities, compared to $77.5 million in pledged securities at December 31, 2016.

Other sources available for meeting liquidity needs include advances from the FHLB, repurchase agreements and other borrowings. FHLB advances are primarily used to match-fund fixed rate loans in order to minimize interest rate risk and also may be used to meet day to day liquidity needs, particularly if the prevailing interest rate on an FHLB advance compares favorably to the rates that we would be required to pay to attract deposits. At June 30, 2017, the balance of our outstanding advances with the FHLB was $109.3 million, an increase from $82.8 million at December 31, 2016. The total amount of the remaining credit available to us from the FHLB at June 30, 2017 was $347.7 million. Repurchase agreements are contracts for the sale of securities which we own with a corresponding agreement to repurchase those securities at an agreed upon price and date. Our policies limit the use of repurchase agreements to those collateralized by U.S. Treasury and agency securities. We had $36.7 million of repurchase agreements outstanding as of June 30, 2017, compared to $39.1 million of repurchase agreements outstanding as of December 31, 2016. We maintain unsecured lines of credit with other commercial banks totaling $55.0 million. The lines of credit mature at various times within the next year. We had no outstanding balances on our unsecured lines of credit at June 30, 2017 and December 31, 2016. We also have a secured $20.0 million revolving line of credit with TIB maturing in June 2018. There was no outstanding balance on the revolving line of credit at June 30, 2017 compared to a $1.0 million outstanding balance at December 31, 2016.

Our liquidity strategy is focused on using the least costly funds available to us in the context of our balance sheet composition and interest rate risk position. Accordingly, we target growth of noninterest-bearing deposits. Although we cannot directly control the types of deposit instruments our customers choose, we can influence those choices with the interest rates and deposit specials we offer. We do not hold any brokered deposits, as defined for federal regulatory purposes, although we do hold QwikRate® deposits, included in our time deposit balances, which we obtain via the internet to address liquidity needs when rates on such deposits compare favorably with deposit rates in our markets. At June 30, 2017, we held $80.1 million of QwikRate® deposits, down from $123.2 million at December 31, 2016.

The following table presents, by type, our funding sources, which consist of total average deposits and borrowed funds, as a percentage of total funds and the total cost of each funding source for the three months ended June 30, 2017 and 2016.

	Percentage of Total		Cost of Funds		Percentage of Total		Cost of Funds	
	Three months ended June 30,		Three months ended June 30,		Six months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016	2017	2016	2017	2016
Noninterest-bearing demand deposits	11%	10%	—%	—%	11%	10%	—%	—%
Interest-bearing demand deposits	28	26	0.72	0.64	28	26	0.70	0.64
Savings accounts	5	5	0.65	0.67	5	5	0.65	0.67
Time deposits	39	46	1.22	1.17	40	44	1.21	1.13
Short-term borrowings	13	11	1.02	0.89	13	12	0.99	0.80
Long-term borrowed funds	4	2	3.73	1.18	3	3	3.08	1.13
Total deposits and borrowed funds	100%	100%	0.98%	0.86%	100%	100%	0.93%	0.83%

Capital Management. Our primary sources of capital include retained earnings, capital obtained through acquisitions, and proceeds from the sale of our capital stock. We are subject to various regulatory capital requirements administered by the Federal Reserve and the FDIC which specify capital tiers, including the following classifications.

Capital Tiers	Tier 1 Leverage Ratio	Common Equity Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
Well capitalized	5% or above	6.5% or above	8% or above	10% or above
Adequately capitalized	4% or above	4.5% or above	6% or above	8% or above
Undercapitalized	Less than 4%	Less than 4.5%	Less than 6%	Less than 8%
Significantly undercapitalized	Less than 3%	Less than 3%	Less than 4%	Less than 6%
Critically undercapitalized			2% or less	

The Company and the Bank each were in compliance with all regulatory capital requirements as of June 30, 2017 and December 31, 2016. The Bank also was considered "well-capitalized" under the FDIC's prompt corrective action regulations as of these dates. The following table presents the actual capital amounts and regulatory capital ratios for the Company and the Bank as of the dates presented (dollars in thousands).

	Actual		Minimum Capital Requirement to be Well Capitalized	
	Amount	Ratio	Amount	Ratio
June 30, 2017				
Investar Holding Corporation:				
Tier 1 leverage capital	$ 152,081	12.71%	$ —	—%
Common equity tier 1 capital	148,581	14.41	—	—
Tier 1 capital	152,081	14.75	—	—
Total capital	177,546	17.22	—	—
Investar Bank:				
Tier 1 leverage capital	166,816	13.96	59,734	5.00
Common equity tier 1 capital	166,816	16.20	66,933	6.50
Tier 1 capital	166,816	16.20	82,380	8.00
Total capital	174,136	16.91	102,975	10.00
December 31, 2016				
Investar Holding Corporation:				
Tier 1 leverage capital	$ 115,312	10.10%	$ —	—%
Common equity tier 1 capital	111,812	11.40	—	—
Tier 1 capital	115,312	11.75	—	—
Total capital	122,363	12.47	—	—
Investar Bank:				
Tier 1 leverage capital	114,417	10.03	57,063	5.00
Common equity tier 1 capital	114,417	11.67	63,706	6.50
Tier 1 capital	114,417	11.67	78,408	8.00
Total capital	121,468	12.39	98,010	10.00

We augmented our capital in the quarter ended March 31, 2017 through both a common stock offering and a subordinated debt issuance. See Note 6. Subordinated Debt Securities and Note 7. Stockholders' Equity for further information.

Off-Balance Sheet Transactions

The Bank entered into interest rate swap contracts to manage exposure against the variability in the expected future cash flows (future interest payments) attributable to changes in the 1-month LIBOR associated with the forecasted issuances of 1-month fixed rate debt arising from a rollover strategy. An interest rate swap is an agreement whereby one party agrees to pay a fixed rate of interest on a notional principal amount in exchange for receiving a floating rate of interest on the same notional amount for a predetermined period of time, from a second party. The maximum length of time over which the Bank is currently hedging its exposure to the variability in future cash flows for forecasted transactions is approximately 3.1 years. The total notional amount of the derivative contracts is $50.0 million.

The Bank enters into loan commitments and standby letters of credit in the normal course of its business. Loan commitments are made to meet the financing needs of our customers, while standby letters of credit commit the Bank to make payments on behalf of customers when certain specified future events occur. The credit risks associated with loan commitments and standby letters of credit are essentially the same as those involved in making loans to our customers. Accordingly, our normal credit policies apply to these arrangements. Collateral (e.g., securities, receivables, inventory, equipment, etc.) is obtained based on management's credit assessment of the customer.

Loan commitments and standby letters of credit do not necessarily represent future cash requirements, in that while the customer typically has the ability to draw upon these commitments at any time, these commitments often expire without being drawn upon in full or at all. Virtually all of our standby letters of credit expire within one year. Our unfunded loan commitments and standby letters of credit outstanding are summarized below as of the dates indicated (dollars in thousands):

	June 30, 2017	December 31, 2016
Commitments to extend credit:		
Loan commitments	$ 119,913	$ 142,891
Standby letters of credit	485	1,008

The Company closely monitors the amount of remaining future commitments to borrowers in light of prevailing economic conditions and adjusts these commitments as necessary. The Company intends to continue this process as new commitments are entered into or existing commitments are renewed.

Additionally, at June 30, 2017, the Company had unfunded commitments of $0.3 million for its investment in Small Business Investment Company qualified funds.

For the three months ended June 30, 2017 and for the year ended December 31, 2016, except as disclosed herein and in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, we engaged in no off-balance sheet transactions that we believe are reasonably likely to have a material effect on our financial condition, results of operations, or cash flows.

Contractual Obligations

The following table presents, as of June 30, 2017, significant fixed and determinable contractual obligations to third parties by payment date (dollars in thousands).

	Payments Due In:				
	Less than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without a stated maturity(1)	$ 496,771	$ —	$ —	$ —	$ 496,771
Time Deposits	255,918	128,365	13,771		398,054
Securities sold under agreements to repurchase	36,745	—	—	—	36,745
Federal Home Loan Bank advances	91,185	18,100	—	—	109,285
Junior subordinated debt	—	—	—	3,609	3,609
Subordinated debt	—	—	—	18,600	18,600
Total contractual obligations	$ 880,619	$ 146,465	$ 13,771	$ 22,209	$ 1,063,064

(1) Excludes interest

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosures about market risk as of December 31, 2016 are set forth in the Company's Annual Report on Form 10-K filed with the SEC on March 9, 2017 in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management." There have been no material changes in the Company's market risk since December 31, 2016. Please refer to the information in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading "Risk Management" in this report for additional information about the Company's market risk for the six months ended June 30, 2017.

Item 4. Controls and Procedures

Based on their evaluation as of the end of the period covered by this quarterly report on Form 10-Q, the Company's Principal Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are effective for ensuring that information the Company is required to disclose in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There were no changes in the Company's internal control over financial reporting during the fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the Annual Report on Form 10-K for the year ended December 31, 2016 filed by Investar Holding Corporation (the "Company") with the SEC on March 9, 2017.

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

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Issuer Purchases of Equity Securities

The table below provides the information with respect to purchases made by the Company of shares of its common stock during each of the months during the three month period ended June 30, 2017.

Period	(a) Total Number of Shares (or Units) Purchased[(1)]	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs[(2)]	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Be Purchased Under the Plans or Programs[(2)]
April 1, 2017 to April 30, 2017	1,655	$ 21.73	—	241,243
May 1, 2017 to May 31, 2017	49	21.99	—	241,243
June 1, 2017 to June 30, 2017	—	—	—	241,243
	1,704	$ 21.73	—	241,243

(1) Represents shares surrendered to cover the payroll taxes due upon the vesting of restricted stock.

(2) On February 19, 2015, the Company announced that its board of directors had authorized the repurchase of up to 250,000 shares of the Company's common stock in open market transactions from time to time or through privately negotiated transactions in accordance with federal securities laws. In addition, on October 19, 2016, the Company announced that its board of directors authorized the repurchase of an additional 250,000 shares of the Company's common stock under its stock repurchase plan.

The Company's ability to pay dividends to its shareholders may be limited by the junior subordinated debentures that the Company assumed in connection with its acquisition of First Community Bank, which are senior to shares of the Company's common stock. The Company must make payments on the junior subordinated debentures before any dividends can be paid on its common stock.

In addition, the Company's status as a bank holding company affects its ability to pay dividends, in two ways:

- As a holding company with no material business activities, the Company's ability to pay dividends is substantially dependent upon the ability of Investar Bank to transfer funds to the Company in the form of dividends, loans and advances. Investar Bank's ability to pay dividends and make other distributions and payments is itself subject to various legal, regulatory and other restrictions.

- As a holding company of a bank, the Company's payment of dividends must comply with the policies and enforcement powers of the Federal Reserve. Under Federal Reserve policies, in general a bank holding company should pay dividends only when (1) its net income available to shareholders over the last four quarters (net of dividends paid) has been sufficient to fully fund the dividends, (2) the prospective rate of earnings retention appears to be consistent with the capital needs and overall current and prospective financial condition of the bank holding company and its subsidiaries, and (3) the bank holding company will continue to meet minimum regulatory capital adequacy ratios.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
1.1	Underwriting Agreement, dated March 16, 2017, among Investar Holding Corporation, Investar Bank and Sandler O'Neill & Partners, L.P. as representative of the underwriters named herein(1)
1.2	Underwriting Agreement, dated March 21, 2017, among Investar Holding Corporation, Investar Bank and Sandler O'Neill & Partners, L.P. as underwriter(2)
2.1	Agreement and Plan of Reorganization, dated March 8, 2017, by and among Investar Holding Corporation, Citizens Bancshares, Inc. and Investar Acquisition Company(3)
3.1	Restated Articles of Incorporation of Investar Holding Corporation(4)
3.2	By-laws of Investar Holding Corporation, as amended(5)
4.1	Specimen Common Stock Certificate(6)
4.2	Indenture, dated March 24, 2017, by and between Investar Holding Corporation and Wilmington Trust, National Association, as Trustee(7)
4.3	Supplemental Indenture, dated March 24, 2017, by and between Investar Holding Corporation and Wilmington Trust, National Association, as Trustee(8)
10.1	Investar Holding Corporation 2017 Long-Term Incentive Compensation Plan(9)
31.1	Certification of the Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Principal Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Principal Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

(1) Filed as exhibit 1.1 to the Current Report on Form 8-K filed with the SEC on March 20, 2017 and incorporated herein by reference.
(2) Filed as exhibit 1.1 to the Current Report on Form 8-K filed with the SEC on March 24, 2017 and incorporated herein by reference.
(3) Filed as exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on March 8, 2017 and incorporated herein by reference.
(4) Filed as exhibit 3.1 to the Registration Statement on Form S-1 of the Company filed with the SEC on May 16, 2014 and incorporated herein by reference.
(5) Filed as exhibit 3.2 to the Pre-Effective Amendment No. 1 to Registration Statement on Form S-1 of the Company filed with the SEC on June 4, 2014 and incorporated herein by reference.
(6) Filed as exhibit 4.1 to the Registration Statement on Form S-1 of the Company filed with the SEC on May 16, 2014 and incorporated herein by reference.
(7) Filed as exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on March 24, 2017 and incorporated herein by reference.
(8) Filed as exhibit 4.2 to the Current Report on Form 8-K filed with the SEC on March 24, 2017 and incorporated herein by reference.
(9) Filed as exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on May 25, 2017 and incorporated herein by reference.

The Company does not have any long-term debt instruments under which securities are authorized exceeding 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company will furnish to the Securities and Exchange Commission, upon its request, a copy of all long-term debt instruments.

SIGNATURES

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

	INVESTAR HOLDING CORPORATION
Date: August 9, 2017	/s/ John J. D'Angelo
	John J. D'Angelo President and Chief Executive Officer (Principal Executive Officer)
Date: August 9, 2017	/s/ Christopher L. Hufft
	Christopher L. Hufft Chief Financial Officer (Principal Financial Officer)

EXHIBIT INDEX

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Exhibit 31.1

CERTIFICATIONS

I, John J. D’Angelo, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2017 of Investar Holding 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 9, 2017

/s/ John J. D’Angelo

John J. D’Angelo
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Christopher L. Hufft, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2017 of Investar Holding 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 9, 2017

/s/ Christopher L. Hufft

Christopher L. Hufft
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the quarterly report on Form 10-Q of Investar Holding Corporation (the “Company”) for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John J. D’Angelo, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

Date: August 9, 2017

/s/ John J. D’Angelo
John J. D’Angelo
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the quarterly report on Form 10-Q of Investar Holding Corporation (the “Company”) for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christopher L. Hufft, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

Date: August 9, 2017

/s/ Christopher L. Hufft

Christopher L. Hufft
Chief Financial Officer
(Principal Financial Officer)