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, 2016

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting 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	☐

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, 7,149,064 shares outstanding as of August 1, 2016.

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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; and
- concentration of credit exposure.

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, 2015, 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.

P ART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Cash and due from banks	$ 9,958	$ 6,313
Interest-bearing balances due from other banks	27,175	14,472
Federal funds sold	1	181
Cash and cash equivalents	**37,134**	**20,966**
Available for sale securities at fair value (amortized cost of $149,986, and $113,828, respectively)	151,841	113,371
Held to maturity securities at amortized cost (estimated fair value of $25,810 and $26,271, respectively)	25,656	26,408
Loans held for sale	46,717	80,509
Loans, net of allowance for loan losses of $7,091 and $6,128, respectively	810,379	739,313
Other equity securities	7,371	5,835
Bank premises and equipment, net of accumulated depreciation of $6,017 and $5,368, respectively	30,147	30,630
Other real estate owned, net	279	725
Accrued interest receivable	2,840	2,831
Deferred tax asset	1,459	1,915
Goodwill and other intangible assets, net	3,254	3,175
Bank owned life insurance	7,101	3,512
Other assets	2,752	2,365
Total assets	**$ 1,126,930**	**$ 1,031,555**
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 109,828	$ 90,447
Interest-bearing	757,377	646,959
Total deposits	**867,205**	**737,406**
Advances from Federal Home Loan Bank	93,599	127,497
Repurchase agreements	28,854	39,099
Junior subordinated debt	3,609	3,609
Accrued taxes and other liabilities	20,900	14,594
Total liabilities	**1,014,167**	**922,205**
STOCKHOLDERS' EQUITY		
Preferred stock, no par value per share; 5,000,000 shares authorized	-	-
Common stock, $1.00 par value per share; 40,000,000 shares authorized; 7,359,976 and 7,305,213 shares issued and 7,214,734 and 7,264,282 shares outstanding, respectively	7,360	7,305
Treasury stock	(2,249)	(634)
Surplus	84,958	84,692
Retained earnings	22,507	18,650
Accumulated other comprehensive income (loss)	187	(663)
Total stockholders' equity	**112,763**	**109,350**
Total liabilities and stockholders' equity	**$ 1,126,930**	**$ 1,031,555**

See accompanying notes to the consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
INTEREST INCOME				
Interest and fees on loans	$ 9,781	$ 8,646	$ 19,266	$ 16,944
Interest on investment securities	891	523	1,747	1,008
Other interest income	47	18	84	35
Total interest income	10,719	9,187	21,097	17,987
INTEREST EXPENSE				
Interest on deposits	1,763	1,299	3,278	2,491
Interest on borrowings	298	108	614	217
Total interest expense	2,061	1,407	3,892	2,708
Net interest income	8,658	7,780	17,205	15,279
Provision for loan losses	800	400	1,254	1,100
Net interest income after provision for loan losses	7,858	7,380	15,951	14,179
NONINTEREST INCOME				
Service charges on deposit accounts	88	97	185	191
Gain on sale of investment securities, net	144	134	224	134
Gain on sale of fixed assets	1,252	-	1,252	-
Gain on sale of other real estate owned, net	10	7	11	6
Gain on sale of loans, net	-	1,077	313	2,808
Fee income on loans held for sale, net	106	210	229	510
Servicing fees	431	373	899	653
Other operating income	225	168	430	304
Total noninterest income	2,256	2,066	3,543	4,606
Income before noninterest expense	10,114	9,446	19,494	18,785
NONINTEREST EXPENSE				
Depreciation and amortization	369	362	739	719
Salaries and employee benefits	3,890	3,971	7,763	7,879
Occupancy	242	225	478	438
Data processing	367	370	741	710
Marketing	102	62	214	120
Professional fees	375	237	654	499
Customer reimbursements	584	-	584	-
Other operating expenses	1,175	1,455	2,315	2,741
Total noninterest expense	7,104	6,682	13,488	13,106
Income before income tax expense	3,010	2,764	6,006	5,679
Income tax expense	1,005	951	2,011	1,916
Net income	$ 2,005	$ 1,813	$ 3,995	$ 3,763
EARNINGS PER SHARE				
Basic earnings per share	$ 0.28	$ 0.25	$ 0.56	$ 0.52
Diluted earnings per share	$ 0.28	$ 0.25	$ 0.55	$ 0.52
Cash dividends declared per common share	$ 0.01	$ 0.01	$ 0.02	$ 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,	
	2016	**2015**	**2016**	**2015**
Net income	$ 2,005	$ 1,813	$ 3,995	$ 3,763
Other comprehensive income (loss):				
Unrealized gain (loss) on investment securities:				
Unrealized gain (loss), available for sale, net of tax expense (benefit) of $408, ($194), $887 and ($51), respectively	757	(374)	1,648	(96)
Reclassification of realized gain, net of tax expense of $50, $47, $78 and $47, respectively	(93)	(87)	(145)	(87)
Unrealized loss, transfer from available for sale to held to maturity, net of tax benefit of $0 for all respective periods	(1)	(1)	(2)	(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 ($109), $44, ($351) and ($82), respectively	(202)	94	(651)	(151)
Total other comprehensive income	461	(368)	850	(336)
Total comprehensive income	$ 2,466	$ 1,445	$ 4,845	$ 3,427

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	Treasury Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2014	$ 7,264	$ (23)	$ 84,213	$ 11,809	$ 121	$ 103,384
Surrendered shares	-	(39)	-	-	-	(39)
Shares repurchased	-	(572)	-	-	-	(572)
Options exercised	10	-	125	-	-	135
Dividends declared, $0.03 per share	-	-	-	(232)	-	(232)
Stock-based compensation	31	-	354	-	-	385
Net income	-	-	-	7,073	-	7,073
Other comprehensive loss, net	-	-	-	-	(784)	(784)
Balance, December 31, 2015	$ 7,305	$ (634)	$ 84,692	$ 18,650	$ (663)	$ 109,350
Surrendered shares	-	(23)	-	-	-	(23)
Shares repurchased	-	(1,592)	-	-	-	(1,592)
Options exercised	1	-	14	-	-	15
Dividends declared, $0.02 per share	-	-	-	(138)	-	(138)
Stock-based compensation	54	-	252	-	-	306
Net income	-	-	-	3,995	-	3,995
Other comprehensive income, net	-	-	-	-	850	850
Balance, June 30, 2016 (Unaudited)	$ 7,360	$ (2,249)	$ 84,958	$ 22,507	$ 187	$ 112,763

See accompanying notes to the consolidated financial statements.

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

	For the six months ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	3,995	3,763
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	739	719
Provision for loan losses	1,254	1,100
Amortization of purchase accounting adjustments	(27)	(121)
Provision for other real estate owned	7	24
Net amortization of securities	534	528
Gain on sale of securities, net	(224)	(134)
Gain on sale of fixed assets, net	(1,252)	-
Gain on sale of other real estate owned, net	(11)	(6)
FHLB stock dividend	(31)	(7)
Stock-based compensation	306	176
Deferred taxes	(2)	(349)
Net change in value of bank owned life insurance	(89)	-
Other	-	11
Loans held for sale:		
Originations	(495)	(210,350)
Proceeds from sales	23,837	238,341
Gain on sale of loans	(313)	(2,808)
Net change in:		
Accrued interest receivable	(9)	3
Other assets	166	533
Accrued taxes and other liabilities	5,272	4,759
Net cash provided by operating activities	33,657	36,182
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	8,418	6,217
Funds invested in securities available for sale	(52,263)	(24,095)
Proceeds from maturities, prepayments and calls of investment securities available for sale	7,425	5,248
Funds invested in securities held to maturity	-	(2,182)
Proceeds from maturities, prepayments and calls of investment securities held to maturity	701	449
Proceeds from redemption of other equity securities	-	5,355
Purchase of other equity securities	(1,505)	(3,966)
Net increase in loans	(61,598)	(51,093)
Proceeds from sales of other real estate owned	480	561
Proceeds from the sales of fixed assets	2,649	-
Purchases of fixed assets	(1,632)	(1,604)
Acquisition of trademark intangible	(100)	-
Purchase of bank owned life insurance	(3,500)	-
Purchase of other investments	(553)	-
Net cash used in investing activities	(101,478)	(65,110)
Cash flows from financing activities:		
Net increase in customer deposits	129,837	77,942
Net (decrease) increase in repurchase agreements	(10,245)	2,837
Net decrease in short-term FHLB advances	(28,780)	(48,256)
Proceeds from long-term FHLB advances	-	3,000
Repayment of long-term FHLB advances	(5,118)	(1,464)
Cash dividends paid on common stock	(128)	(104)
Proceeds from stock options exercised	15	-
Payments to repurchase common stock	(1,592)	-
Net cash provided by financing activities	83,989	33,955
Net increase in cash and cash equivalents	16,168	5,027
Cash and cash equivalents, beginning of period	20,966	19,512
Cash and cash equivalents, end of period	$ 37,134	$ 24,539

See accompanying notes to the consolidated financial statements.

NO TE 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, 2016 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, 2015, 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 11, 2016.

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. The Company currently operates 10 full service banking offices located throughout its market and had 152 employees at June 30, 2016.

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.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to be consistent with the 2016 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.

Recent Accoun ting Pronouncements

FASB ASC Topic 326 "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments" Update No. 2016-13. The Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-13 in June 2016. The revised accounting guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses of available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2020. Management is currently evaluating the potential impact of ASU 2016-13 on the consolidated financial statements.

NOTE 2. EARNINGS PER SHARE

The following is a summary of the information used in the computation of basic and diluted earnings per common share for the three and six months ended June 30, 2016 and 2015 (in thousands, except share data).

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income available to common shareholders	$ 2,005	$ 1,813	$ 3,995	$ 3,763
Weighted average number of common shares outstanding used in computation of basic earnings per common share	7,158,532	7,219,593	7,176,545	7,219,415
Effect of dilutive securities:				
Restricted stock	15,298	13,372	12,705	11,065
Stock options	14,715	16,725	14,752	13,478
Stock warrants	11,231	12,467	11,249	10,765
Weighted average number of common shares outstanding plus effect of dilutive securities used in computation of diluted earnings per common share	7,199,776	7,262,157	7,215,251	7,254,723
Basic earnings per share	$ 0.28	$ 0.25	$ 0.56	$ 0.52
Diluted earnings per share	$ 0.28	$ 0.25	$ 0.55	$ 0.52

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, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of other U.S. government agencies and corporations	$ 29,379	$ 543	$ (16)	$ 29,906
Obligations of state and political subdivisions	29,062	748	(5)	29,805
Corporate bonds	15,802	89	(309)	15,582
Residential mortgage-backed securities	73,341	855	(47)	74,149
Commercial mortgage-backed securities	1,255	34	-	1,289
Equity securities	1,147	15	(52)	1,110
Total	$ 149,986	$ 2,284	$ (429)	$ 151,841

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of other U.S. government agencies and corporations	$ 26,502	$ 73	$ (102)	$ 26,473
Obligations of state and political subdivisions	21,365	125	(23)	21,467
Corporate bonds	15,069	1	(246)	14,824
Residential mortgage-backed securities	47,703	72	(249)	47,526
Commercial mortgage-backed securities	2,005	-	(16)	1,989
Equity securities	1,184	8	(100)	1,092
Total	$ 113,828	$ 279	$ (736)	$ 113,371

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, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of other U.S. government agencies and corporations	$ 3,991	$ 10	$ -	$ 4,001
Obligations of state and political subdivisions	13,841	29	-	13,870
Residential mortgage-backed securities	7,824	115	-	7,939
Total	$ 25,656	$ 154	$ -	$ 25,810

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of other U.S. government agencies and corporations	$ 3,987	$ -	$ (64)	$ 3,923
Residential mortgage-backed securities	8,373	5	(91)	8,287
Obligations of state and political subdivisions	14,048	18	(5)	14,061
Total	$ 26,408	$ 23	$ (160)	$ 26,271

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, 2016 or December 31, 2015.

The aggregate fair values and aggregate unrealized losses on securities whose fair values are below book values are summarized in the tables below. Due to the nature of the investment and current market prices, these unrealized losses are considered a temporary impairment of the securities.

The following table presents, by type and number of securities, the age of gross unrealized losses and approximate fair value by investment category for securities available for sale as of the dates presented (dollars in thousands).

		Less than 12 Months		12 Months or More		Total	
June 30, 2016	Count	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of other U.S. government agencies and corporations	2	$ 1,124	$ (16)	$ -	$ -	$ 1,124	$ (16)
Obligations of state and political subdivisions	4	9,870	(5)	-	-	9,870	(5)
Corporate bonds	27	6,109	(197)	5,335	(112)	11,444	(309)
Residential mortgage-backed securities	28	10,756	(42)	1,197	(5)	11,953	(47)
Equity securities	15	450	(41)	495	(11)	945	(52)
Total	76	$ 28,309	$ (301)	$ 7,027	$ (128)	$ 35,336	$ (429)

December 31, 2015	Count	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
Obligations of other U.S. government agencies and corporations	28	$ 14,792	$ (93)	$ 592	$ (9)	$ 15,384	$ (102)
Obligations of state and political subdivisions	14	2,312	(11)	1,322	(12)	3,634	(23)
Corporate bonds	29	10,888	(222)	1,225	(24)	12,113	(246)
Residential mortgage-backed securities	62	31,836	(245)	326	(4)	32,162	(249)
Commercial mortgage-backed securities	3	1,989	(16)	-	-	1,989	(16)
Equity securities	8	517	(79)	485	(21)	1,002	(100)
Total	144	$ 62,334	$ (666)	$ 3,950	$ (70)	$ 66,284	$ (736)

The following table presents, by type and number of securities, the age of gross unrealized losses and approximate fair value by investment category for securities held to maturity as of December 31, 2015 (dollars in thousands). There were no held to maturity securities with gross unrealized losses at June 30, 2016.

December 31, 2015	Count	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
Obligations of other U.S. government agencies and corporations	2	$ 1,958	$ (36)	$ 1,965	$ (28)	$ 3,923	$ (64)
Obligations of state and political subdivisions	1	6,862	(5)	-	-	6,862	(5)
Residential mortgage-backed securities	7	4,469	(37)	1,932	(54)	6,401	(91)
Total	10	$ 13,289	$ (78)	$ 3,897	$ (82)	$ 17,186	$ (160)

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, 2016 or December 31, 2015.

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, 2016	Securities Available for Sale: Weighted Average T.E. Yield	Amortized Cost	Fair Value	Securities Held to Maturity: Weighted Average T.E. Yield	Amortized Cost	Fair Value
Due within one year	1.31 %	$ 864	$ 865	7.17 %	$ 655	$ 657
Due after one year through five years	2.10	9,367	9,390	7.17	2,950	2,958
Due after five years through ten years	2.72	27,781	27,938	7.17	3,575	3,585
Due after ten years	2.44	110,827	112,538	3.13	18,476	18,610
Total debt securities		$ 148,839	$ 150,731		$ 25,656	$ 25,810

December 31, 2015	Securities Available for Sale: Weighted Average T.E. Yield	Amortized Cost	Fair Value	Securities Held to Maturity: Weighted Average T.E. Yield	Amortized Cost	Fair Value
Due within one year	- %	$ -	$ -	7.17 %	$ 655	$ 657
Due after one year through five years	2.01	9,979	9,984	7.17	2,950	2,958
Due after five years through ten years	2.81	23,662	23,494	7.17	3,575	3,584
Due after ten years	2.63	79,003	78,801	3.17	19,228	19,072
Total debt securities		$ 112,644	$ 112,279		$ 26,408	$ 26,271

NOTE 4. LOANS

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

	June 30, 2016	December 31, 2015
Construction and development	$ 101,080	$ 81,863
1-4 Family	166,778	156,300
Multifamily	37,300	29,694
Farmland	8,343	2,955
Commercial real estate	332,306	288,583
Total mortgage loans on real estate	645,807	559,395
Commercial and industrial	75,103	69,961
Consumer	96,560	116,085
Total loans	$ 817,470	$ 745,441

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

	June 30, 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	$ -	$ -	$ -	$ 1,035	$ 1,035	$ 100,045	$ 101,080
1-4 Family	113	-	-	487	600	166,178	166,778
Multifamily	-	-	-	-	-	37,300	37,300
Farmland	-	-	-	-	-	8,343	8,343
Commercial real estate	-	-	-	273	273	332,033	332,306
Total mortgage loans on real estate	113	-	-	1,795	1,908	643,899	645,807
Commercial and industrial	-	-	-	2,775	2,775	72,328	75,103
Consumer	357	66	-	902	1,325	95,235	96,560
Total loans	$ 470	$ 66	$ -	$ 5,472	$ 6,008	$ 811,462	$ 817,470

	December 31, 2015						
	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	$ 129	$ -	$ -	$ 1,061	$ 1,190	$ 80,673	$ 81,863
1-4 Family	222	-	-	538	760	155,540	156,300
Multifamily	-	-	-	-	-	29,694	29,694
Farmland	-	-	-	-	-	2,955	2,955
Commercial real estate	-	-	-	97	97	288,486	288,583
Total mortgage loans on real estate	351	-	-	1,696	2,047	557,348	559,395
Commercial and industrial	26	1,779	-	-	1,805	68,156	69,961
Consumer	292	179	-	715	1,186	114,899	116,085
Total loans	$ 669	$ 1,958	$ -	$ 2,411	$ 5,038	$ 740,403	$ 745,441

The balance of total loans at June 30, 2016 in the table above includes approximately $32.4 million of loans acquired in acquisitions ("acquired loans") that were recorded at fair value as of the acquisition dates. Included in the acquired loan balances as of June 30, 2016 were approximately $0.1 million in loans 30-59 days past due and $1.0 million in nonaccrual loans.

The total December 31, 2015 balance in the table above includes approximately $37.0 million of acquired loans that were recorded at fair value as of the acquisition dates. Included in the acquired loan balances as of December 31, 2015 were approximately $0.2 million in loans 30-59 days past due and $1.1 million in nonaccrual loans.

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 the highest credit characteristics and financial strength. Borrowers possess characteristics that are highly profitable, with low to negligible leverage, and demonstrate significant net worth and liquidity.

Special Mention – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

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, 2016			
	Pass	Special Mention	Substandard	Total
Construction and development	$ 100,020	$ -	$ 1,060	$ 101,080
1-4 Family	165,249	-	1,529	166,778
Multifamily	37,300	-	-	37,300
Farmland	8,343	-	-	8,343
Commercial real estate	330,934	576	796	332,306
Total mortgage loans on real estate	641,846	576	3,385	645,807
Commercial and industrial	71,332	989	2,782	75,103
Consumer	95,068	554	938	96,560
Total loans	$ 808,246	$ 2,119	$ 7,105	$ 817,470

	December 31, 2015			
	Pass	Special Mention	Substandard	Total
Construction and development	$ 80,759	$ 15	$ 1,089	$ 81,863
1-4 Family	154,741	719	840	156,300
Multifamily	29,694	-	-	29,694
Farmland	2,955	-	-	2,955
Commercial real estate	287,853	-	730	288,583
Total mortgage loans on real estate	556,002	734	2,659	559,395
Commercial and industrial	66,694	-	3,267	69,961
Consumer	114,684	647	754	116,085
Total loans	$ 737,380	$ 1,381	$ 6,680	$ 745,441

The Company had no loans that were classified as doubtful or loss as of June 30, 2016 or December 31, 2015.

Loan participations and whole loans sold to and serviced for others are not included in the accompanying consolidated balance sheets. The balances of the participations and whole loans sold were $335.0 million and $383.7 million as of June 30, 2016 and December 31, 2015, respectively. The unpaid principal balances of these loans were approximately $377.3 million and $426.9 million as of June 30, 2016 and December 31, 2015, 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 borrowers (including companies in which they are principal owners) amounted to approximately $19.3 million and $18.0 million as of June 30, 2016 and December 31, 2015, 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, 2016	December 31, 2015
Balance, beginning of period	$ 17,992	$ 14,631
New loans	3,099	6,600
Repayments and changes in relationship	(1,835)	(3,239)
Balance, end of period	$ 19,256	$ 17,992

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 following table presents changes in the carrying value, net of allowance for loan losses, of acquired impaired loans, or loans accounted for under ASC 310-30, for the periods presented (dollars in thousands).

	Acquired Impaired
Carrying value, net at December 31, 2014	$ 2,778
Accretion to interest income	140
Net transfers from (to) nonaccretable difference to (from) accretable yield	110
Payments received, net	(232)
Charge-offs	(61)
Transfers to other real estate owned	(45)
Carrying value, net at December 31, 2015	$ 2,690
Accretion to interest income	66
Net transfers from (to) nonaccretable difference to (from) accretable yield	1
Payments received, net	(155)
Charge-offs	(37)
Carrying value, net at June 30, 2016	$ 2,565

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

	Acquired Impaired
Balance, period ended December 31, 2014	$ 425
Net transfers from (to) nonaccretable difference to (from) accretable yield	110
Accretion to interest income	(140)
Balance, period ended December 31, 2015	$ 395
Net transfers from (to) nonaccretable difference to (from) accretable yield	1
Accretion to interest income	(66)
Balance, period ended June 30, 2016	$ 330

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, 2016 and 2015 (dollars in thousands).

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	$ 6,463	$ 5,379	$ 6,128	$ 4,630
Provision for loan losses	800	400	1,254	1,100
Loans charged off	(180)	(96)	(336)	(238)
Recoveries	8	45	45	236
Balance, end of period	$ 7,091	$ 5,728	$ 7,091	$ 5,728

The following tables outline the activity in the allowance for loan losses by collateral type for the three and six months ended June 30, 2016 and 2015, and show both the allowances and portfolio balances for loans individually and collectively evaluated for impairment as of June 30, 2016 and 2015 (dollars in thousands).

	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

	Three months ended June 30, 2015							
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	$ 638	$ 23	$ 1,024	$ 164	$ 1,958	$ 409	$ 1,163	5,379
Provision	(12)	(2)	93	16	184	(34)	155	400
Charge-offs	(4)	-	-	-	-	-	(92)	(96)
Recoveries	14	-	1	-	-	17	13	45
Ending balance	$ 636	$ 21	$ 1,118	$ 180	$ 2,142	$ 392	$ 1,239	$ 5,728

	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

	Six months ended June 30, 2015							
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	$ 526	$ 18	$ 909	$ 137	$ 1,571	$ 390	$ 1,079	$ 4,630
Provision	104	3	205	43	571	(139)	313	1,100
Charge-offs	(9)	-	-	-	-	(56)	(173)	(238)
Recoveries	15	-	4	-	-	197	20	236
Ending balance	$ 636	$ 21	$ 1,118	$ 180	$ 2,142	$ 392	$ 1,239	$ 5,728
Ending allowance balance for loans individually evaluated for impairment	-	-	-	-	-	-	153	153
Ending allowance balance for loans collectively evaluated for impairment	$ 636	$ 21	$ 1,118	$ 180	$ 2,142	$ 392	$ 1,086	$ 5,575
Ending allowance balance for loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans receivable:								
Balance of loans individually evaluated for impairment	$ 1,141	$ -	$ 1,844	$ 856	$ 1,383	$ 39	$ 835	$ 6,098
Balance of loans collectively evaluated for impairment	69,786	3,001	151,274	20,404	247,763	56,446	118,814	667,488
Total period-end balance	$ 70,927	$ 3,001	$ 153,118	$ 21,260	$ 249,146	$ 56,485	$ 119,649	$ 673,586
Balance of loans acquired with deteriorated credit quality	$ 748	$ -	$ 849	$ 1,070	$ -	$ -	$ 42	$ 2,709

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.

As of June 30, 2016 and December 31, 2015, the Company was not committed to lend additional funds to any customer whose loan was classified as impaired.

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, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Construction and development	$ 1,207	$ 2,484	$ -
1-4 Family	2,146	2,183	-
Commercial real estate	890	905	-
Total mortgage loans on real estate	4,243	5,572	-
Commercial and industrial	1,785	1,805	-
Consumer	225	232	-
Total	6,253	7,609	-
With related allowance recorded:			
Commercial and industrial	990	1,000	500
Consumer	713	725	238
Total	1,703	1,725	738
Total loans:			
Construction and development	1,207	2,484	-
1-4 Family	2,146	2,183	-
Commercial real estate	890	905	-
Total mortgage loans on real estate	4,243	5,572	-
Commercial and industrial	2,775	2,805	500
Consumer	938	957	238
Total	$ 7,956	$ 9,334	$ 738

	December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Construction and development	$ 1,242	$ 1,241	$ -
1-4 Family	1,419	1,416	-
Commercial real estate	630	629	-
Total mortgage loans on real estate	3,291	3,286	-
Consumer	159	159	-
Total	3,450	3,445	-
With related allowance recorded:			
Consumer	595	595	220
Total	595	595	220
Total loans:			
Construction and development	1,242	1,241	-
1-4 Family	1,419	1,416	-
Commercial real estate	630	629	-
Total mortgage loans on real estate	3,291	3,286	-
Consumer	754	754	220
Total	$ 4,045	$ 4,040	$ 220

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,			
	2016		2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Construction and development	$ 1,209	$ 67	$ 1,309	$ 4
1-4 Family	2,037	26	1,305	9
Commercial real estate	712	2	737	2
Total mortgage loans on real estate	3,958	95	3,351	15
Commercial and industrial	1,294	-	93	1
Consumer	246	5	121	8
Total	5,498	100	3,565	24
With related allowance recorded:				
Commercial and industrial	662	-	-	-
Consumer	626	2	304	10
Total	1,288	2	304	10
Total loans:				
Construction and development	1,209	67	1,309	4
1-4 Family	2,037	26	1,305	9
Commercial real estate	712	2	737	2
Total mortgage loans on real estate	3,958	95	3,351	15
Commercial and industrial	1,956	-	93	1
Consumer	872	7	425	18
Total	$ 6,786	$ 102	$ 3,869	$ 34

	Six months ended June 30,			
	2016		2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Construction and development	$ 1,217	$ 77	$ 1,447	$ 8
1-4 Family	1,870	43	1,290	23
Commercial real estate	669	3	739	2
Total mortgage loans on real estate	3,756	123	3,476	33
Commercial and industrial	654	-	126	2
Consumer	330	7	157	9
Total	4,740	130	3,759	44
With related allowance recorded:				
Commercial and industrial	331	-	-	-
Consumer	494	5	240	10
Total	825	5	240	10
Total loans:				
Construction and development	1,217	77	1,447	8
1-4 Family	1,870	43	1,290	23
Commercial real estate	669	3	739	2
Total mortgage loans on real estate	3,756	123	3,476	33
Commercial and industrial	985	-	126	2
Consumer	824	12	397	19
Total	$ 5,565	$ 135	$ 3,999	$ 54

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, the Company measures any impairment on the restructuring as previously noted for impaired loans.

Loans classified as TDRs, consisting of twenty-two credits, totaled approximately $2.9 million at June 30, 2016 compared to eleven credits totaling approximately $2.2 million at December 31, 2015. Twenty of the twenty-two TDRs were acquired. Ten of the restructured loans were considered TDRs due to 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, two restructured loans were considered TDRs due to modification of terms through principal payment forbearance, paying interest only for a specified period of time, as well as adjustments to maturity, and one restructured loan was considered a TDR due to modification of terms through principal payment forbearance only for a specified period of time. At June 30, 2016, two of the TDRs were in default of their modified terms and are included in nonaccrual loans. The Company individually evaluates each TDR for allowance purposes, primarily based on collateral value, and excludes these loans from the loan population that is evaluated by applying qualitative factors.

As of June 30, 2016 and December 31, 2015, the Company was not committed to lend additional funds to any customer whose loan was classified as a TDR.

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, 2016 and 2015 (dollars in thousands).

	June 30, 2016			June 30, 2015		
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**
Construction and development	-	$ -	$ -	1	$ 30	$ 30
1-4 Family	11	789	789	2	892	892
Total		$ 789	$ 789		$ 922	$ 922

There were no loans modified under troubled debt restructurings during the previous twelve month period that subsequently defaulted during the three months ended June 30, 2016 and 2015.

NOTE 6. STOCK-BASED COMPENSATION

Equity Incentive Plan. The Company's 2014 Long-Term Incentive Compensation 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 and non-employee directors. The Plan has reserved 600,000 shares of common stock for grant, award or issuance to directors and employees, 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.

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 statement of operations for the three and six months ended June 30, 2016 were $49,000 and $92,000, respectively, and $43,000 and $74,000 for the three and six months ended June 30, 2015.

The assumptions presented below were used for the options granted during the six months ended June 30, 2016.

Expected dividends	0.22 %
Expected volatility	19.55 %
Risk-free interest rate	1.62 %
Expected term (in years)	7.0
Weighted-average grant date fair value	$ 3.44

At June 30, 2016, 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 4 years.

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

	Six months ended June 30,			
	2016		2015	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding at beginning of period	278,352	$ 14.37	238,811	$ 13.94
Granted	46,512	14.28	64,333	15.74
Forfeited	-	-	-	-
Exercised	(1,083)	14.00	-	-
Outstanding at end of period	323,781	$ 14.36	303,144	$ 14.32
Exercisable at end of period	59,134	$ 14.23	22,811	$ 13.33

At June 30, 2016, the shares underlying outstanding stock options and exercisable stock options had aggregate intrinsic values of $0.3 million and $68,000, respectively.

Time Vested Restricted Stock Awards

During the six months ended June 30, 2016 and 2015, 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,			
	2016		2015	
	Shares	Weighted Avg Grant Date Fair Value	Shares	Weighted Avg Grant Date Fair Value
Balance at beginning of period	60,592	$ 14.85	42,889	$ 13.96
Granted	54,837	14.67	32,468	15.39
Forfeited	(1,157)	16.32	(1,179)	14.00
Earned and issued	(6,991)	15.68	(606)	14.00
Balance at end of period	107,281	$ 14.70	73,572	$ 14.59

At June 30, 2016, there was $1.3 million of unrecognized compensation cost related to time vested restricted stock awards that is expected to be recognized over a weighted average period of 3.6 years.

NOTE 7. 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 4.1 years. The total notional amount of the derivative contracts is $50.0 million.

For the three and six months ended June 30, 2016, a loss of $0.2 million and $0.7 million, respectively, has been r ecognized in other comprehensive income in the accompanying consolidated statements of comprehensive income for the change in fair value of the interest rate swaps. The swap contracts had a negative fair value of $1.6 million as of June 30, 2016 and have b een recorded in accrued taxes and other liabilities in the accompanying consolidated balance sheets. The total accumulated loss of $1.0 million included in accumulated other comprehensive loss in the accompanying consolidated balance sheet would be reclass ified 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 8. 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 quo tes, 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 q uoted 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.

Loans held for sale are measured using quoted market prices when available. If quoted market prices are not available, comparable market values or discounted cash flow analyses may be utilized. The Company classifies these assets 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 maturing within 90 days 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.

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, 2016				
Assets:				
Obligations of other U.S. government agencies	$ 29,906	$ -	$ 29,906	$ -
Obligations of state and political subdivisions	29,805	-	10,183	19,622
Corporate bonds	15,582	-	14,964	618
Residential mortgage-backed securities	74,149	-	74,149	-
Commercial mortgage-backed securities	1,289	-	1,289	-
Equity securities	1,110	1,110	-	-
Total assets	$ 151,841	$ 1,110	$ 130,491	$ 20,240
Liabilities:				
Derivative financial instruments	$ 1,583	$ -	$ 1,583	$ -
December 31, 2015				
Assets:				
Obligations of other U.S. government agencies	$ 26,473	$ -	$ 26,473	$ -
Obligations of state and political subdivisions	21,467	-	11,072	10,395
Corporate bonds	14,824	-	13,688	1,136
Residential mortgage-backed securities	47,526	-	47,526	-
Commercial mortgage-backed securities	1,989	-	1,989	-
Equity securities	1,092	1,092	-	-
Total assets	$ 113,371	$ 1,092	$ 100,748	$ 11,531
Liabilities:				
Derivative financial instruments	$ 581	$ -	$ 581	$ -

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 table below provides a reconciliation for assets measured at fair value on a recurring basis using significant unobservable inputs, or Level 3 inputs (dollars in thousands).

	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	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
Impaired loans	$ 759	$ -	$ -	$ 759
Other real estate owned	9	-	-	9
Total	$ 768	$ -	$ -	$ 768
December 31, 2015				
Impaired loans	$ 335	$ -	$ -	$ 335
Other real estate owned	35	-	-	35
Total	$ 370	$ -	$ -	$ 370

There were no liabilities measured on a nonrecurring basis at June 30, 2016 or December 31, 2015.

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, 2016				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 37,133	$ 37,133	$ 37,133	$ -	$ -
Federal funds sold	1	1	1	-	-
Investment securities	177,497	177,651	1,110	142,431	34,110
Other equity securities	7,371	7,371	-	7,371	-
Loans, net of allowance	810,379	810,842	-	-	810,842
Loans held for sale	46,717	46,717	-	-	46,717
Financial liabilities:					
Deposits, noninterest-bearing	$ 109,828	$ 109,828	$ -	$ 109,828	$ -
Deposits, interest-bearing	757,377	752,050	-	-	752,050
FHLB short-term advances and repurchase agreements	117,659	117,659	-	117,659	-
FHLB long-term advances	4,794	4,873	-	-	4,873
Junior subordinated debt	3,609	3,003	-	-	3,003
Derivative financial instruments	1,583	1,583	-	1,583	-

	December 31, 2015				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 20,785	$ 20,785	$ 20,785	$ -	$ -
Federal funds sold	181	181	181	-	-
Investment securities	139,779	139,642	1,092	112,958	25,592
Other equity securities	5,835	5,835	-	5,835	-
Loans, net of allowance	739,313	738,614	-	-	738,614
Loans held for sale	80,509	80,509	-	-	80,509
Financial liabilities:					
Deposits, noninterest-bearing	$ 90,447	$ 89,427	$ -	$ 89,427	$ -
Deposits, interest-bearing	646,959	630,613	-	-	630,613
FHLB short-term advances and repurchase agreements	158,236	158,236	-	158,236	-
FHLB long-term advances	8,360	8,455	-	-	8,455
Junior subordinated debt	3,609	3,217	-	-	3,217
Derivative financial instruments	581	581	-	581	-

NOTE 9. INCOME TAXES

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Income tax expense	$ 1,005	$ 951	$ 2,011	$ 1,916
Effective tax rate	33.4%	34.4%	33.5%	33.7%

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 10. 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, 2016	December 31, 2015
Commitments to extend credit		
Loan commitments	$ 180,850	$ 149,561
Standby letters of credit	1,001	382

Additionally, at June 30, 2016, the Company had unfunded commitments of $0.9 million for its investment in Small Business Investment Company qualified funds.

I TEM 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, 2015, 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 11, 2016.

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. We currently operate 10 full service branches. We have completed construction of one new branch in Gonzales, Louisiana in our Baton Rouge market area, expected to open in 2016, and in September 2015, acquired land and a building for an additional branch in our New Orleans market area. We continue to focus on growing our deposit base in our markets. We completed acquisitions in 2011 and 2013 and regularly review 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.

Discussion and Analysis of Financial Condition

For the three months ended June 30, 2016, net income was $2.0 million, or $0.28 per basic and diluted share, compared to net income of $1.8 million, or $0.25 per basic and diluted share for the three months ended June 30, 2015. For the three months ended June 30, 2016, our net interest margin was 3.38%, return on average assets was 0.74% and return on average equity was 7.18%. From December 31, 2015 to June 30, 2016, total loans increased $72.0 million, or 9.7%, and total deposits increased $129.8 million, or 17.6%. As of June 30, 2016, 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, excluding loans held for sale, or total loans, constitute our most significant asset, comprising 72.5% and 72.3% of our total assets at June 30, 2016 and December 31, 2015, respectively. Total loans increased $72.0 million, or 9.7%, to $817.5 million at June 30, 2016 from $745.4 million at December 31, 2015. Commercial and industrial loan growth remains a focus and has grown 7.3% from December 31, 2015.

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

	June 30, 2016		December 31, 2015	
	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans
Construction and development	$ 101,080	12.4 %	$ 81,863	11.0 %
1-4 Family	166,778	20.4	156,300	21.0
Multifamily	37,300	4.6	29,694	4.0
Farmland	8,343	1.0	2,955	0.4
Commercial real estate				
Owner-occupied	151,464	18.5	137,752	18.5
Nonowner-occupied	180,842	22.1	150,831	20.2
Total mortgage loans on real estate	645,807	79.0	559,395	75.1
Commercial and industrial	75,103	9.2	69,961	9.4
Consumer	96,560	11.8	116,085	15.5
Total loans	817,470	100.0 %	745,441	100.0 %
Loans held for sale	46,717		80,509	
Total gross loans	$ 864,187		$ 825,950	

The following table sets forth loans outstanding at June 30, 2016, 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	$ 83,768	$ 7,942	$ 6,932	$ 1,930	$ 508	$ 101,080
1-4 Family	22,461	31,640	40,611	34,262	37,804	166,778
Multifamily	583	15,226	21,368	123	-	37,300
Farmland	3,477	33	2,834	1,999	-	8,343
Commercial real estate						
Owner-occupied	14,368	50,635	47,930	32,775	5,756	151,464
Nonowner-occupied	22,429	78,369	59,979	20,065	-	180,842
Total mortgage loans on real estate	147,086	183,845	179,654	91,154	44,068	645,807
Commercial and industrial	26,091	30,933	15,540	-	2,539	75,103
Consumer	1,795	75,576	18,801	388	-	96,560
Total loans	$ 174,972	$ 290,354	$ 213,995	$ 91,542	$ 46,607	$ 817,470

Loans Held for Sale . Loans held for sale consist of consumer loans and decreased $33.8 million, or 42.0%, to $46.7 million at June 30, 2016 from $80.5 million at December 31, 2015. The decrease in loans held for sale is mainly attributable to the sale of approximately $22.0 million of consumer loans held for sale during the first quarter of 2016 and principal payments on consumer loan balances. 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 and loans held for sale are expected to decrease over time. There were no gains on the sale of consumer loans recognized for the three months ended June 30, 2016, compared to $0.8 million for the three months ended June 30, 2015. For the six months ended June 30, 2016, we recognized gains from the sale of consumer loans of $0.3 million, compared to $2.1 million for the six months ended June 30, 2015. The Bank currently has the intent and ability to sell the balance of the consumer loans classified as held for sale at June 30, 2016; however, if this classification were to change, the loans would be transferred to the consumer loan portfolio. To a lesser extent, the decreases in gains on sale of loans is also due to our decision to significantly reduce our mortgage operations. Originations of mortgage loans in the six months ended June 30, 2016 were $0.6 million, compared to $31.3 million in the same period in 2015.

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, 2016 and December 31, 2015, 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 exposure to the energy sector not to be significant, at less than one percent of the total loan portfolio at June 30, 2016. However, should the price of oil and gas decline further and/or remain at the current low price for an extended period, the general economic conditions in our So uth Louisiana markets could be negatively affected and could negatively impact borrowers' 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 15.8% of our total assets and totaled $177.5 million at June 30, 2016, an increase of $37.7 million, or 27.0%, from $139.8 million at December 31, 2015. The increase in investment securities at June 30, 2016 compared to December 31, 2015 resulted from purchases of various investment types in our current portfolio to manage liquidity.

The following table 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, 2016		December 31, 2015	
	Balance	Percentage of Portfolio	Balance	Percentage of Portfolio
Obligations of other U.S. government agencies and corporations	$ 33,897	19.1 %	$ 30,460	21.8 %
Obligations of state and political subdivisions	43,646	24.6	35,515	25.4
Corporate bonds	15,582	8.8	14,824	10.6
Residential mortgage-backed securities	81,973	46.2	55,899	40.0
Commercial mortgage-backed securities	1,289	0.7	1,989	1.4
Equity securities	1,110	0.6	1,092	0.8
Total	$ 177,497	100.0 %	$ 139,779	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 following table 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, 2016 (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 other U.S. government agencies and corporations	$ -	- %	$ -	- %	$ -	- %	$ 3,991	2.21 %
Residential mortgage-backed securities	-	-	-	-	-	-	7,824	2.53
Obligations of states and political subdivisions	655	7.17	2,950	7.17	3,575	7.17	6,661	4.38
Available for sale:								
Obligations of other U.S. government agencies and corporations	-	-	1,497	2.52	6,676	2.36	21,206	2.34
Residential mortgage-backed securities	-	-	-	-	4,970	2.16	68,371	2.00
Commercial mortgage-backed securities	-	-	-	-	1,025	2.32	230	1.84
Obligations of states and political subdivisions	864	1.31	2,787	1.99	5,141	2.98	20,270	4.06
Corporate bonds	-	-	5,083	2.04	9,969	3.15	750	2.67
	$ 1,519		$ 12,317		$ 31,356		$ 129,303	

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, 2016 and December 31, 2015 (dollars in thousands).

	June 30, 2016		December 31, 2015	
	Amount	Percentage of Total Deposits	Amount	Percentage of Total Deposits
Noninterest-bearing demand deposits	$ 109,828	12.7 %	$ 90,447	12.3 %
NOW accounts	139,893	16.1	140,503	19.0
Money market deposit accounts	108,552	12.5	96,113	13.0
Savings accounts	52,899	6.1	53,735	7.3
Time deposits	456,033	52.6	356,608	48.4
Total deposits	$ 867,205	100.0 %	$ 737,406	100.0 %

Total deposits were $867.2 million at June 30, 2016, an increase of $129.8 million, or 17.6%, from December 31, 2015. The increase in total deposits was driven by an increase in noninterest-bearing deposits of $19.4 million, or 21.4%, an increase in money market accounts of $12.4 million, or 12.9%, and an increase in time deposits of $99.4 million, or 27.9%, compared to December 31, 2015. The increase in deposits at June 30, 2016 compared to December 31, 2015 resulted from organic growth in all of our markets, and the Company's focus on relationship banking continues to positively impact noninterest-bearing demand deposit growth.

The following table shows the contractual maturities of certificates of deposit and other time deposits greater than $100,000 at June 30, 2016 and December 31, 2015 (dollars in thousands).

	June 30, 2016		December 31, 2015	
	Certificates of Deposit	Other Time Deposits	Certificates of Deposit	Other Time Deposits
Time remaining until maturity:				
Three months or less	$ 14,061	$ -	$ 4,312	$ 363
Over three months through six months	16,187	571	10,039	-
Over six months through twelve months	58,796	101	12,809	103
Over one year through three years	55,985	1,642	5,272	438
Over three years	6,946	100	1,468	-
	$ 151,975	$ 2,414	$ 33,900	$ 904

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"), and junior subordinated debentures. In addition, in June 2016, we entered into a loan agreement with TIB providing for a $20 million secured revolving line of credit maturing June 27, 2018, as further described under the heading *Liquidity and Capital Resources* . Securities sold under agreements to repurchase decreased $10.2 million to $28.9 million at June 30, 2016 from $39.1 million at December 31, 2015. Our advances from the FHLB were $93.6 million at June 30, 2016, a decrease of $33.9 million, or 26.6%, from FHLB advances of $127.5 million at December 31, 2015. We had no funds drawn on the lines of credit at June 30, 2016 or December 31, 2015. The $3.6 million in junior subordinated debt at June 30, 2016 and December 31, 2015 represents the junior subordinated debentures that we assumed through acquisition.

The average balances and cost of funds of short-term borrowings for the six months ended June 30, 2016 and 2015 are summarized in t he table below (dollars in thousands).

	Average Balances		Cost of Funds	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Federal funds purchased and other short-term borrowings	$ 88,118	$ 31,980	1.01 %	0.17 %
Securities sold under agreements to repurchase	29,938	13,165	0.20	0.20
Total short-term borrowings	$ 118,056	$ 45,145	0.80 %	0.18 %

Results of Operations

Performance Summary

Three months ended June 30, 2016 vs. three months ended June 30, 2015 . For the three months ended June 30, 2016, net income was $2.0 million, or $0.28 per basic and diluted share, compared to net income of $1.8 million, or $0.25 per basic and diluted share for the three months ended June 30, 2015. Return on average assets decreased to 0.74% for the three months ended June 30, 2016 compared to 0.82% for the three months ended June 30, 2015 primarily due to a $195.0 million increase in average assets. Return on average equity was 7.18% for the three months ended June 30, 2016 compared to 6.82% for the three months ended June 30, 2015.

Six months ended June 30, 2016 vs. six months ended June 30, 2015 . For the six months ended June 30, 2016, net income was $4.0 million, or $0.56 per basic share and $0.55 per diluted share, compared to net income of $3.8 million, or $0.52 per basic and diluted share for the six months ended June 30, 2015. Return on average assets decreased to 0.75% for the six months ended June 30, 2016 compared to 0.86% for the six months ended June 30, 2015 primarily due to a $185.4 million increase in average assets. Return on average equity was 7.19% for the six months ended June 30, 2016 compared to 7.17% for the six months ended June 30, 2015.

Net Interest Income and Net Interest Margin

Net interest income, which is the largest component of our earnings, is the difference between interest earned on assets and the cost of interest-bearing liabilities. 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.

The primary factors affecting net interest margin are changes in interest rates, competition and the shape of the interest rate yield curve. The decline in interest rates since 2008 has put significant downward pressure on net interest margin over the past few years. Each rate reduction in interest rate indices (and, in particular, the prime rate, rates paid on U.S. Treasury securities and the London Interbank Offering Rate) resulted in a reduction in the yield on our variable rate loans indexed to one of these indices. However, rates on our deposits and other interest-bearing liabilities did not decline proportionally. To offset the effects on our net interest income and net interest margin from the prevailing interest rate environment, we have attempted to focus our interest-earning assets in loans and shift our interest-bearing liabilities from higher-costing deposits, like certificates of deposit, to noninterest-bearing and other lower cost deposits.

Three months ended June 30, 2016 vs. three months ended June 30, 2015 . Net interest income increased 11.3% to $8.7 million for the three months ended June 30, 2016 compared to $7.8 million for the same period in 2015. The increase in net interest income was a direct result of continued growth of the Company's loan portfolio with an increase in net interest income of $1.5 million due to an increase in volume offset by a $0.6 million decrease related to a reduction in yield when compared to the second quarter of 2015. For the three months ended June 30, 2016, average loans and average investment securities increased approximately $122.6 million and $58.2 million, respectively, compared to the same period in 2015, while average interest bearing deposits and short- and long-term borrowings increased approximately $122.2 million and $49.7 million, respectively.

Interest income was $10.7 million for the three months ended June 30, 2016 compared to $9.2 million for the same period in 2015. Loan interest income made up substantially all of our interest income for the three months ended June 30, 2016 and 2015. The prolonged low interest rate environment contributed to a lower yield on earning assets, offset by the increases in interest-earning assets, described above. The overall yield on interest-earning assets decreased 19 basis points to 4.18% for the three months ended June 30, 2016 compared to 4.37% for the same period in 2015. The loan portfolio yielded 4.60% for the three months ended June 30, 2016 compared to 4.75% for the three months ended June 30, 2015, while the yield on the investment portfolio was 2.32% for the three months ended June 30, 2016 compared to 2.19% for the three months ended June 30, 2015.

Inter est expense was $2.1 million for the three months ended June 30, 2016, an increase of $0.7 million compared to interest expense of $1.4 million for the three months ended June 30, 2015, as a result of an increase in the volume of interest-bearing liabiliti es. Average interest-bearing liabilities increased approximately $171.9 million for the three months ended June 30, 2016 as compared to the same period in 2015 as a result of our organic deposit growth to fund increased lending activity. The cost of intere st-bearing liabilities increased 14 basis points to 0.95% for the three months ended June 30, 2016 compared to 0.81% for the same period in 2015, primarily as a result of an increase in rates offered to our customers for time deposits.

Net interest margin was 3.38% for the three months ended June 30, 2016, down 32 basis points from 3.70% for the three months ended June 30, 2015. 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 three months ended June 30, 2016 and 2015. Averages presented in the table below are daily averages (dollars in thousands).

	Three months ended June 30,					
	2016			2015		
	Average Balance	Interest Income/ Expense (1)	Yield/ Rate (1)	Average Balance	Interest Income/ Expense (1)	Yield/ Rate (1)
Assets						
Interest-earning assets:						
Loans	$ 852,475	$ 9,781	4.60 %	$ 729,851	$ 8,646	4.75 %
Securities:						
Taxable	129,126	732	2.27	77,050	404	2.10
Tax-exempt	25,105	159	2.54	18,948	119	2.52
Interest-earning balances with banks	21,654	47	0.87	17,135	18	0.42
Total interest-earning assets	1,028,360	10,719	4.18	842,984	9,187	4.37
Cash and due from banks	7,647			5,432		
Intangible assets	3,258			3,199		
Other assets	54,123			45,532		
Allowance for loan losses	(6,784)			(5,566)		
Total assets	$ 1,086,604			$ 891,581		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	$ 247,052	$ 393	0.64 %	$ 222,130	$ 353	0.64 %
Savings deposits	52,728	88	0.67	53,364	90	0.68
Time deposits	439,898	1,282	1.17	341,948	856	1.00
Total interest-bearing deposits	739,678	1,763	0.96	617,442	1,299	0.84
Short-term borrowings	103,274	229	0.89	36,977	16	0.17
Long-term debt	23,434	69	1.18	40,078	92	0.92
Total interest-bearing liabilities	866,386	2,061	0.95	694,497	1,407	0.81
Noninterest-bearing deposits	95,537			81,709		
Other liabilities	12,646			8,792		
Stockholders' equity	112,035			106,583		
Total liabilities and stockholders' equity	$ 1,086,604			$ 891,581		
Net interest income/net interest margin		$ 8,658	3.38 %		$ 7,780	3.70 %

(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 s ets 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, 2016 compared to the same period in 2015 (dollars in thousands).

	Three months ended June 30, 2016 vs. three months ended June 30, 2015		
	Volume	Rate	Net (1)
Interest income:			
Loans	$ 1,453	$ (318)	$ 1,135
Securities:			
Taxable	273	55	328
Tax-exempt	39	1	40
Interest-earning balances with banks	5	24	29
Total interest-earning assets	1,770	(238)	1,532
Interest expense:			
Interest-bearing demand deposits	40	-	40
Savings deposits	(1)	(1)	(2)
Time deposits	245	181	426
Short-term borrowings	29	184	213
Long-term debt	(38)	15	(23)
Total interest-bearing liabilities	275	379	654
Change in net interest income	$ 1,495	$ (617)	$ 878

(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, 2016 vs. six months ended June 30, 2015 . Net interest income increased 12.6% to $17.2 million for the six months ended June 30, 2016 from $15.3 million for the same period in 2015. The increase in net interest income was a direct result of continued growth of the Company's loan portfolio with an increase in net interest income of $2.9 million due to an increase in volume offset by a $1.0 million decrease related to a reduction in yield when compared to the second quarter of 2015. For the six months ended June 30, 2016, average loans and average investment securities increased approximately $120.3 million and $53.2 million, respectively, compared to the same period in 2015, while average interest bearing deposits, and short- and long-term borrowings increased approximately $107.1 million and $57.0 million, respectively.

Interest income was $21.1 million for the six months ended June 30, 2016 compared to $18.0 million for the same period in 2015. Loan interest income made up substantially all of our interest income for the six months ended June 30, 2016 and 2015. The prolonged low interest rate environment contributed to a lower yield on earning assets, offset by the increases in interest-earning assets, described above. The overall yield on interest-earning assets decreased 16 basis points to 4.20% for the six months ended June 30, 2016 compared to 4.36% for the same period in 2015. The loan portfolio yielded 4.59% for the six months ended June 30, 2016 compared to 4.73% for the six months ended June 30, 2015, while the yield on the investment portfolio was 2.42% for the six months ended June 30, 2016 compared to 2.21% for the six months ended June 30, 2015.

Interest expense was $3.9 million for the six months ended June 30, 2016, an increase of $1.2 million compared to interest expense of $2.7 million for the six months ended June 30, 2015, as a result of increases in both the volume and cost of interest-bearing liabilities. Average interest-bearing liabilities increased approximately $164.1 million for the six months ended June 30, 2016 compared to the same period in 2015 as a result of our organic deposit growth and increase in short-term borrowings to fund increased lending activity. The cost of interest-bearing liabilities increased 13 basis points to 0.92% for the six months ended June 30, 2016 compared to 0.79% for the same period in 2015, primarily as a result of the cost of short-term borrowings and an increase in rates offered to our customers for time deposits.

Net interest margin was 3.42% for the six months ended June 30, 2016, down 29 basis points from 3.71% for the six months ended June 30, 2015. 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 Yield s . 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, 2016 and 2015. Averages presented in the table below are daily averages (dollars in thousands).

	Six months ended June 30,					
	2016			2015		
	Average Balance	Interest Income/ Expense (1)	Yield/ Rate (1)	Average Balance	Interest Income/ Expense (1)	Yield/ Rate (1)
Assets						
Interest-earning assets:						
Loans	$ 842,420	$ 19,266	4.59 %	$ 722,136	$ 16,944	4.73 %
Securities:						
Taxable	121,286	1,444	2.39	72,812	770	2.13
Tax-exempt	23,652	303	2.57	18,963	238	2.53
Interest-earning balances with banks	21,210	84	0.79	17,580	35	0.40
Total interest-earning assets	1,008,568	21,097	4.20	831,491	17,987	4.36
Cash and due from banks	7,435			5,560		
Intangible assets	3,219			3,204		
Other assets	53,123			45,396		
Allowance for loan losses	(6,546)			(5,295)		
Total assets	$ 1,065,799			$ 880,356		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	$ 243,448	$ 773	0.64 %	$ 213,477	$ 663	0.63 %
Savings deposits	52,936	177	0.67	54,540	184	0.68
Time deposits	411,868	2,328	1.13	333,143	1,644	1.00
Total interest-bearing deposits	708,252	3,278	0.93	601,160	2,491	0.84
Short-term borrowings	118,056	473	0.80	45,145	40	0.18
Long-term debt	25,050	141	1.13	40,929	177	0.87
Total interest-bearing liabilities	851,358	3,892	0.92	687,234	2,708	0.79
Noninterest-bearing deposits	91,428			79,480		
Other liabilities	11,559			7,888		
Stockholders' equity	111,454			105,754		
Total liabilities and stockholders' equity	$ 1,065,799			$ 880,356		
Net interest income/net interest margin		$ 17,205	3.42 %		$ 15,279	3.71 %

(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 set s 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, 2016 compared to the same period in 2015 (dollars in thousands).

	Six months ended June 30, 2016 vs. six months ended June 30, 2015		
	Volume	**Rate**	**Net** (1)
Interest income:			
Loans	$ 2,838	$ (516)	$ 2,322
Securities:			
Taxable	516	158	674
Tax-exempt	59	6	65
Interest-earning balances with banks	7	42	49
Total interest-earning assets	3,420	(310)	3,110
Interest expense:			
Interest-bearing demand deposits	94	16	110
Savings deposits	(5)	(2)	(7)
Time deposits	390	294	684
Short-term borrowings	65	368	433
Long-term debt	(69)	33	(36)
Total interest-bearing liabilities	475	709	1,184
Change in net interest income	$ 2,945	$ (1,019)	$ 1,926

(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 and loans held for sale, servicing fees, and gain on sale of investment securities, fixed assets, other real estate owned and 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, 2016 vs. three months ended June 30, 2015 . Total noninterest income increased $0.2 million, or 9.2%, to $2.3 million for the three months ended June 30, 2016 compared to $2.1 million for the three months ended June 30, 2015. The increase in noninterest income is mainly attributable to the $1.3 million increase in the gain on sale of fixed assets recognized for the sale of the land and building of one of the Bank's branch locations to a healthcare company. The increase in the gain on sale of fixed assets was offset by a $1.1 million decrease in the gain on sale of loans. As discussed in *Loans* above, the gain on sale of loans decreased due to the Bank's decision to exit the indirect auto loan origination business at the end of 2015.

Fee income on loans held for sale decreased to $0.1 million for the three months ended June 30, 2016 compared to $0.2 million for the same period in 2015 due to the decrease in originations of loans held for sale, as discussed in *Loans* above.

Six months ended June 30, 2016 vs. six months ended June 30, 2015 . Total noninterest income decreased $1.1 million, or 23.1%, to $3.5 million for the six months ended June 30, 2016 compared to $4.6 million for the six months ended June 30, 2015. The decrease in noninterest income is mainly attributable to the $2.5 million decrease in gain on sale of loans when compared to the six months ended June 30, 2015. As discussed in *Loans* above, the gain on sale of loans decreased due to the Bank's decision in November 2015 to exit the indirect auto loan origination business. The decrease in the gain on sale of loans was offset by a $1.3 million increase in the gain on sale of fixed assets recognized for the sale of the land and building of one of the Bank's branch locations to a healthcare company when compared to the six months ended June 30, 2015.

Fee income on loans held for sale decreased to $0.2 million for the six months ended June 30, 2016 from $0.5 million for the same period in 2015 due to the decrease in originations of consumer loans held for sale, as discussed in *Loans* above.

Servicing fees, which are fees collected for servicing loans which have been sold and are held in our servicing portfolio, increased $0.2 million, or 37.7%, to $0.9 million for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increase is directly related to the increase in the size of our servicing portfolio.

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 $0.4 million for the six months ended June 30, 2016 compared to $0.3 million for the same period in 2015. The increase is mainly a result of a $0.1 million increase in the value of bank owned life insurance.

Noninterest Expense

Three months ended June 30, 2016 vs. three months ended June 30, 2015 . Total noninterest expense was $7.1 million for the three months ended June 30, 2016, an increase of $0.4 million, or 6.3%, compared to the same period in 2015. The increase is primarily due to $0.6 million in customer reimbursements paid to certain borrowers during the three months ended June 30, 2016.

Six months ended June 30, 2016 vs. six months ended June 30, 2015 . Total noninterest expense was $13.5 million for the six months ended June 30, 2016, an increase of $0.4 million, or 2.9%, compared to the same period in 2015. The increase is primarily due to $0.6 million in customer reimbursements paid to certain borrowers during the three months ended June 30, 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, 2016 was $1.0 million, an increase of $54,000, compared to the three months ended June 30, 2015. The effective tax rate for the three months ended June 30, 2016 and 2015 was 33.4% and 34.4%, respectively.

Income tax expense for the six months ended June 30, 2016 was $2.0 million, an increase of $0.1 million, compared to the six months ended June 30, 2015. The effective tax rate for the six months ended June 30, 2016 and 2015 was 33.5 % and 33.7%, 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 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 (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, 2016 and December 31, 2015, there were no loans classified as doubtful or loss, while there were $7.1 million and $6.7 million, respectively, of loans classified as substandard. At June 30, 2016 and December 31, 2015, $2.1 million and $1.4 million, respectively, of loans were classified as special mention. Of our substandard and special mention loans at June 30, 2016 and December 31, 2015, $2.1 million and $1.6 million, respectively, were acquired and marked to fair value at the time of their acquisition.

An external loan review consultant is engaged annually by the risk management department to review approximately 40% 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 grade. 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 $7.1 million at June 30, 2016, up from $6.1 million at December 31, 2015, as we increased our loan loss provisioning to reflect our nonperforming 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, nonaccrual loans and a sample of loans between $250,000 and $500,000. 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, 2016 were $8.0 million, including im paired loans acquired through acquisition in the amount of $2.2 million, compared to $4.0 million, including impaired loans acquired through acquisition in the amount of $1.5 million, at December 31, 2015. The increase in impaired loans is mainly due to on e $2.7 million commercial and industrial loan relationship not related to the oil and gas industry. At June 30, 2016 and December 31, 2015, $0.7 million and $0.2 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, 2016 and 2015, the provision for loan losses was $0.8 million and $0.4 million, respectively. For the six months ended June 30, 2016 and 2015, the provision for loan losses was $1.3 million and $1.1 million, respectively. The increase over the three-month comparative period can be attributed to the increase in nonperforming loans, specifically the one commercial and industrial loan relationship mentioned above. The increase over the six-month comparative period is primarily due to the overall growth in our loan portfolio.

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, 2016	December 31, 2015
Construction and development	$ 779	$ 644
1-4 Family	1,280	1,213
Multifamily	310	246
Farmland	61	22
Commercial real estate	2,430	2,156
Total mortgage loans on real estate	4,860	4,281
Commercial and industrial	1,028	513
Consumer	1,203	1,334
Total allowance for loan losses	$ 7,091	$ 6,128

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,		Six months ended June 30,	
	2016	2015	2016	2015
Allowance at beginning of period	$ 6,463	$ 5,379	$ 6,128	$ 4,630
Provision for loan losses	800	400	1,254	1,100
Charge-offs:				
Mortgage loans on real estate:				
Construction and development	(7)	(4)	(14)	(9)
1-4 Family	-	-	(7)	-
Commercial and industrial	-	-	-	(56)
Consumer	(173)	(92)	(315)	(173)
Total charge-offs	(180)	(96)	(336)	(238)
Recoveries				
Mortgage loans on real estate:				
Construction and development	3	14	6	15
1-4 Family	1	1	8	4
Commercial real estate	-	-	1	-
Commercial and industrial	-	17	20	197
Consumer	4	13	10	20
Total recoveries	8	45	45	236
Net (charge-offs) recoveries	(172)	(51)	(291)	(2)
Balance at end of period	$ 7,091	$ 5,728	$ 7,091	$ 5,728
Net charge-offs to:				
Loans - average	0.02%	0.00%	0.04%	0.00%
Allowance for loan losses	2.43%	0.89%	4.10%	0.03%
Allowance for loan losses to:				
Total loans	0.87%	0.85%	0.87%	0.85%
Nonperforming loans	129.59%	213.20%	129.59%	213.20%

The allowance for loan losses to total loans ratio increased to 0.87% at June 30, 2016 compared to 0.85% at June 30, 2015. The allowance for loan losses to nonperforming loans ratio decreased to 129.59% at June 30, 2016 from 213.20% at June 30, 2015. The decrease in the allowance for loan losses to nonperforming loans ratio is due to a $3.1 million increase in nonperforming loans. Nonperforming loans were $5.5 million, or 0.67% of total loans, at June 30, 2016, compared to $2.4 million, or 0.32% of total loans at December 31, 2015. The increase in nonperforming loans is mainly due to the $2.7 million commercial and industrial loan relationship mentioned above. Management has evaluated this loan relationship, which is well collateralized and specifically reserved, and expects it to be resolved without any additional material impact to the financial statements.

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, 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. Net charge-offs for the three and six months ended June 30, 2015 were $51,000 and $2,000, respectively, equal to 0.00% and 0.00%, respectively, of our average loan balance as of that date.

Management believes the allowance for loan losses at June 30, 2016 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 w hich 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, manage ment 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 reas onable 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 twenty-two loans classified as TDRs at June 30, 2016 that totaled approximately $2.9 million, compared to eleven loans totaling approximately $2.2 million at December 31, 2015. Twenty of the twenty-two TDRs were acquired through acquisition. Ten of the restructured loans were considered TDRs due to a 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, two of the restructured loans were considered TDRs due to modification of terms through principal payment forbearance, paying interest only for a specified period of time, as well as adjustments to maturity, 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, 2016, two of the restructured loans with a balance of $0.4 million were in default of their modified terms and had been placed on nonaccrual. As of December 31, 2015, three of the restructured loans with a balance of $0.5 million were in default of their modified terms and had been placed on nonaccrual.

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, 2016		December 31, 2015	
Nonaccrual loans	$	5,472	$	2,411
Accruing loans past due 90 days or more		-		-
Total nonperforming loans		5,472		2,411
Restructured loans		2,484		1,629
Total nonperforming and restructured loans	$	7,956	$	4,040
Interest income recognized on nonperforming and restructured loans	$	167	$	174
Interest income foregone on nonperforming and restructured loans	$	169	$	252

Of the total nonaccrual loans at June 30, 2016 and December 31, 2015, $1.0 million and $1.1 million, respectively, were acquired through acquisition. Nonperforming loans are comprised of accruing loans past due 90 days or more and nonaccrual loans. Nonperforming loans outstanding represented 0.67% and 0.32% of total loans at June 30, 2016 and December 31, 2015, respectively. Nonperforming loans, other than those acquired through an acquisition and nonperforming acquired loans represented 0.55% and 0.12%, respectively, of total loans at June 30, 2016.

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 $0.4 million and $0.5 million was sold during the three and six months ended June 30, 2016, respectively, resulting in a net gain of $10,000 and $11,000 for the respective periods. For the three and six months ended June 30, 2015, other real estate owned with a cost basis $0.1 million and $0.6 million was sold resulting in a net gain of $7,000 and $6,000, respectively, for the periods. At June 30, 2016 and December 31, 2015, $0.3 million and $0.6 million, respectively of our other real estate owned was related to loans acquired through acquisition.

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

	June 30, 2016	December 31, 2015
Construction and development	$ 279	$ 616
1-4 Family	-	109
Total other real estate owned	$ 279	$ 725

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, 2016	Six months ended June 30, 2015
Balance, beginning of period	$ 725	$ 2,735
Transfers from loans	-	319
Transfers from acquired loans	30	45
Sales of other real estate owned	(469)	(556)
Write-downs	(7)	(24)
Balance, end of period	$ 279	$ 2,519

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, 2016, the Bank was within the policy guidelines for asset/liability management.

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

As of June 30, 2016	
Changes in Interest Rates (in basis points)	**Estimated Increase/Decrease in Net Interest Income [(1)]**
+300	(1.3)%
+200	(0.7)%
+100	(0.4)%
-100	4.7%
-200	4.8%
-300	4.8%

(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. This could mitigate some of the benefits of falling rates as are expected when we are in a negatively-gapped position. 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, 2016 and December 31, 2015, 75% and 69% 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, 2016, securities with a carrying value of $59.7 million were pledged to secure certain deposits, borrowings, and other liabilities, compared to $58.8 million in pledged securities as of December 31, 2015.

Other sources available for meeting liquidity needs include advances from the FHLB, repurchase agreements and other borrowings. FHLB advances are p rimarily 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 r equired to pay to attract deposits. At June 30, 2016, the balance of our outstanding advances with the FHLB was $93.6 million, a decrease from $127.5 million at December 31, 2015. The total amount of the remaining credit available to us from the FHLB at Ju ne 30, 2016 was $275.9 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 $28.9 million of repurchase agreements outstanding as of June 30, 2016, compared to $39.1 million of outstanding repurchase agreements as of December 31, 2015. We maintain unsecured li nes of credit with other commercial banks totaling $55.0 million. The lines of credit mature at various times within the next twenty-three months. There were no amounts outstanding under these lines of credit at June 30, 2016 or December 31, 2015.

In addition, on June 27, 2016, we entered into a loan agreement ("Agreement") with TIB providing for a $20 million revolving line of credit maturing June 27, 2018. Borrowings bear interest, payable quarterly, at a fixed rate per annum equal to the U.S. prime rate on June 27, 2016 (3.5%); provided, however, that on June 27, 2017, the rate will be adjusted to a fixed rate of interest equal to the prime rate on such date. The revolving line of credit is secured by a first priority security interest in all of the capital stock of Investar Bank and a security interest in all property of Investar Bank held by the lender. There were no amounts outstanding under the revolving line of credit at June 30, 2016.

The loan agreement for the revolving line of credit contains customary representations, warranties, affirmative covenants and events of default, and also contains a number of negative covenants, including, but not limited to, restrictions on mergers and similar transactions, restrictions on liens, and a prohibition on the payment of dividends or repurchase of stock during an event of default. The agreement also contains financial covenants, including requiring that Investar Bank maintain (i) a Tier 1 Leverage Ratio and a Common Equity Tier 1 Ratio not less than 7.5% at all times, (ii) a Tier 1 Capital Ratio and a Total Capital Ratio not less than 9.5% at all times, (iii) a return on average assets of no less than 0.70% as of the end of each fiscal quarter, annualized on a year-to-date basis, (iv) Classified Assets (as defined in the Agreement) at no more than 35% of Investar Bank's Tier 1 Capital plus allowance for loan and lease losses, and (v) a total loans to total assets ratio of no more than 85% at all times.

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 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, 2016, we held $127.2 million of QwikRate ® deposits, up from $79.3 million at December 31, 2015.

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 and six months ended June 30, 2016 and 2015.

	Percentage of Total Three months ended June 30,		Cost of Funds Three months ended June 30,		Percentage of Total Six months ended June 30,		Cost of Funds Six months ended June 30,	
	2016	2015	2016	2015	2016	2015	2016	2015
Noninterest-bearing demand deposits	10 %	10 %	- %	- %	10 %	10 %	- %	- %
Interest-bearing demand deposits	26	29	0.64	0.64	26	28	0.64	0.63
Savings accounts	5	7	0.67	0.68	5	7	0.67	0.68
Time deposits	46	44	1.17	1.00	44	44	1.13	1.00
Short-term borrowings	11	5	0.89	0.17	12	6	0.80	0.18
Long-term borrowed funds	2	5	1.18	0.92	3	5	1.13	0.87
Total deposits and borrowed funds	100 %	100 %	0.86 %	0.73 %	100.0 %	100 %	0.83 %	0.71 %

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 wh ich 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, 2016 and December 31, 2015. 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, 2016				
Investar Holding Corporation:				
Tier 1 leverage capital	$ 113,025	10.46 %	$ -	- %
Common equity tier 1 capital	109,525	11.11	-	-
Tier 1 capital	113,025	11.47	-	-
Total capital	120,116	12.19	-	-
Investar Bank:				
Tier 1 leverage capital	110,778	10.26	53,978	5.00
Common equity tier 1 capital	110,778	11.25	63,985	6.50
Tier 1 capital	110,778	11.25	78,750	8.00
Total capital	117,869	11.97	98,438	10.00
December 31, 2015				
Investar Holding Corporation:				
Tier 1 leverage capital	$ 110,574	11.39 %	$ -	- %
Common equity tier 1 capital	107,074	11.67	-	-
Tier 1 capital	110,574	12.05	-	-
Total capital	116,702	12.72	-	-
Investar Bank:				
Tier 1 leverage capital	107,209	11.07	48,436	5.00
Common equity tier 1 capital	107,209	11.71	59,511	6.50
Tier 1 capital	107,209	11.71	73,244	8.00
Total capital	113,337	12.38	91,555	10.00

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 4 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 ma de 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 cr edit 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, 2016	December 31, 2015
Commitments to extend credit:		
Loan commitments	$ 180,850	$ 149,561
Standby letters of credit	1,001	382

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, 2016, the Company had unfunded commitments of $0.9 million for its investment in Small Business Investment Company qualified funds.

For the three months ended June 30, 2016 and for the year ended December 31, 2015, except as disclosed herein and in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, 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

There have been no material changes outside the ordinary course of business in the contractual obligations set forth in the table of contractual obligations as of December 31, 2015 contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

I tem 3. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosures about market risk as of December 31, 2015 are set forth in the Company's Annual Report on Form 10-K filed with the SEC on March 11, 2016 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, 2015. 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, 2016.

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.

P ART 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, 2015 filed by Investar Holding Corporation (the "Company") with the SEC on March 11, 2016.

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, 2016.

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, 2016 to April 30, 2016	1,234	$ 14.91	-	192,450
May 1, 2016 to May 31, 2016	59,238	15.57	59,155	133,295
June 1, 2016 to June 30, 2016	22,968	15.50	22,968	110,327
	83,440	$ 15.54	82,123	110,327

(1) Includes 1,317 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.

The Company's ability to pay dividends to its shareholders may be limited on account of 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
3.1	Restated Articles of Incorporation of Investar Holding Corporation (1)
3.2	By-laws of Investar Holding Corporation, as amended (2)
4.1	Specimen Common Stock Certificate (3)
10.1	Loan Agreement, dated as of June 27, 2016, by and between Investar Holding Corporation, as borrower, and TIB – The Independent Bankers Bank, as lender (4)
10.2	Promissory Note, dated as of June 27, 2016, by and between Investar Holding Corporation, as maker, and TIB – The Independent Bankers Bank, as payee (5)
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 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.

(2) 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.

(3) 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.

(4) Filed as exhibit 10.1 to the Current Report on Form 8-K of the Company filed with the SEC on June 30, 2016 and incorporated herein by reference.

(5) Filed as exhibit 10.2 to the Current Report on Form 8-K of the Company filed with the SEC on June 30, 2016 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.

S IGNATURES

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 4, 2016

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

Date: August 4, 2016

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

E XHIBIT 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, 2016 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(s) 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 4, 2016

/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, 2016 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(s) 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 4, 2016

/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, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John J. D’Angelo, 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, as amended; and

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

Date: August 4, 2016

/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, 2016 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, as amended; and

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

Date: August 4, 2016

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