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 September 30, 2018

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

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☑
Non-accelerated filer	☐	Smaller reporting company	☑
		Emerging growth company	☑

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

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 the issuer's class of common stock, as of the latest practicable date, is as follows: Common stock, $1.00 par value, 9,546,003 shares outstanding as of November 7, 2018 .

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2018	December 31, 2017
	(Unaudited)	
ASSETS		
Cash and due from banks	$ 21,151	$ 19,619
Interest-bearing balances due from other banks	3,352	10,802
Federal funds sold	285	—
Cash and cash equivalents	**24,788**	**30,421**
Available for sale securities at fair value (amortized cost of $238,443 and $220,077, respectively)	230,747	217,564
Held to maturity securities at amortized cost (estimated fair value of $16,691 and $17,947, respectively)	17,030	17,997
Loans, net of allowance for loan losses of $9,021 and $7,891, respectively	1,349,391	1,250,888
Equity securities	12,671	9,798
Bank premises and equipment, net of accumulated depreciation of $9,332 and $7,825, respectively	39,831	37,540
Other real estate owned, net	4,227	3,837
Accrued interest receivable	5,073	4,688
Deferred tax asset	1,768	1,294
Goodwill and other intangible assets, net	19,902	19,926
Bank owned life insurance	23,702	23,231
Other assets	6,185	5,550
Total assets	**$ 1,735,315**	**$ 1,622,734**
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 214,190	$ 216,599
Interest-bearing	1,081,431	1,008,638
Total deposits	**1,295,621**	**1,225,237**
Advances from Federal Home Loan Bank	208,083	166,658
Repurchase agreements	17,931	21,935
Subordinated debt, net of unamortized issuance costs	18,203	18,168
Junior subordinated debt	5,832	5,792
Accrued taxes and other liabilities	11,238	12,215
Total liabilities	**1,556,908**	**1,450,005**
STOCKHOLDERS' EQUITY		
Preferred stock, no par value per share; 5,000,000 shares authorized	—	—
Common stock, $1.00 par value per share; 40,000,000 shares authorized; 9,545,701 and 9,514,926 shares issued and outstanding, respectively	9,546	9,515
Surplus	131,333	131,582
Retained earnings	42,868	33,203
Accumulated other comprehensive loss	(5,340)	(1,571)
Total stockholders' equity	**178,407**	**172,729**
Total liabilities and stockholders' equity	**$ 1,735,315**	**$ 1,622,734**

See accompanying notes to the consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
INTEREST INCOME				
Interest and fees on loans	$ 16,905	$ 12,893	$ 48,754	$ 33,456
Interest on investment securities	1,710	1,399	4,813	3,627
Other interest income	162	150	397	296
Total interest income	18,777	14,442	53,964	37,379
INTEREST EXPENSE				
Interest on deposits	2,994	2,137	7,673	5,817
Interest on borrowings	1,398	767	3,728	1,862
Total interest expense	4,392	2,904	11,401	7,679
Net interest income	14,385	11,538	42,563	29,700
Provision for loan losses	785	420	1,977	1,145
Net interest income after provision for loan losses	13,600	11,118	40,586	28,555
NONINTEREST INCOME				
Service charges on deposit accounts	368	281	1,054	474
Gain on sale of investment securities, net	15	27	37	242
Gain on sale of fixed assets, net	9	160	98	184
(Loss) gain on sale of other real estate owned, net	—	37	(4)	32
Servicing fees and fee income on serviced loans	232	352	773	1,153
Other operating income	593	310	1,524	768
Total noninterest income	1,217	1,167	3,482	2,853
Income before noninterest expense	14,817	12,285	44,068	31,408
NONINTEREST EXPENSE				
Depreciation and amortization	644	542	1,871	1,309
Salaries and employee benefits	6,646	5,136	19,189	13,195
Occupancy	337	317	1,052	826
Data processing	493	446	1,600	1,169
Marketing	71	124	153	271
Professional fees	281	263	764	726
Acquisition expense	—	824	1,104	1,049
Other operating expenses	1,782	1,470	5,243	4,189
Total noninterest expense	10,254	9,122	30,976	22,734
Income before income tax expense	4,563	3,163	13,092	8,674
Income tax expense	516	1,032	2,823	2,756
Net income	$ 4,047	$ 2,131	$ 10,269	$ 5,918
EARNINGS PER SHARE				
Basic earnings per share	$ 0.42	$ 0.24	$ 1.06	$ 0.72
Diluted earnings per share	0.41	0.24	1.05	0.71
Cash dividends declared per common share	0.05	0.03	0.12	0.07

See accompanying notes to the consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Net income	$ 4,047	$ 2,131	$ 10,269	$ 5,918
Other comprehensive income (loss):				
Unrealized gain (loss) on investment securities:				
Unrealized (loss) gain, available for sale, net of tax (benefit) expense of ($410), $51, ($1,081) and $711, respectively	(1,542)	95	(4,065)	1,320
Reclassification of realized gain, net of tax expense of $3, $10, $7 and $85, respectively	(12)	(18)	(29)	(157)
Unrealized loss, transfer from available for sale to held to maturity, net of tax benefit of $0 for all respective periods	—	—	(1)	(1)
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 ($3), $20, $87 and $62, respectively	(11)	37	326	114
Total other comprehensive (loss) income	(1,565)	114	(3,769)	1,276
Total comprehensive income	$ 2,482	$ 2,245	$ 6,500	$ 7,194

See accompanying notes to the consolidated financial statements.

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

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2016	$ 7,102	$ 81,499	$ 26,227	$ (2,071)	$ 112,757
Common stock issued in offering, net of direct costs of $1,991	1,624	30,885	—	—	32,509
Surrendered shares	(8)	(158)	—	—	(166)
Shares repurchased	(12)	(252)			(264)
Options and warrants exercised	67	822	—	—	889
Dividends declared, $0.07 per share	—	—	(637)	—	(637)
Stock-based compensation and other activity	(68)	655	—	—	587
Net tax effect of stock-based compensation	—	7	—	—	7
Net income	—	—	5,918	—	5,918
Other comprehensive income, net	—	—	—	1,276	1,276
Balance, September 30, 2017	$ 8,705	$ 113,458	$ 31,508	$ (795)	$ 152,876
Balance, December 31, 2017	$ 9,515	$ 131,582	$ 33,203	$ (1,571)	$ 172,729
Surrendered shares	(9)	(212)	—	—	(221)
Options and warrants exercised	77	960	—	—	1,037
Dividends declared, $0.12 per share	—	—	(1,156)	—	(1,156)
Stock-based compensation	34	765	—	—	799
Reclassification of tax effects of the Tax Cuts and Jobs Act [(1)]	—	—	557	—	557
Shares repurchased	(71)	(1,762)	—	—	(1,833)
Net income	—	—	10,269	—	10,269
Other comprehensive loss, net	—	—	—	(3,769)	(3,769)
Impact of adoption of new accounting standards [(2)]	—	—	(5)	—	(5)
Balance, September 30, 2018	$ 9,546	$ 131,333	$ 42,868	$ (5,340)	$ 178,407

(1) The Tax Cuts and Jobs Act, enacted on December 22, 2017, required the revaluation of the Company's deferred tax assets and liabilities as of December 31, 2017 as a result of the lower corporate tax rates to be realized beginning January 1, 2018. The $ 0.6 million adjustment to retained earnings for the period ended September 30, 2018 represents a reclassification of the tax effects of the Tax Cuts and Jobs Act.

(2) Represents the impact of adopting Accounting Standards Update ("ASU") No. 2016-01. See Note 1 to the consolidated financial statements for more information.

See accompanying notes to the consolidated financial statements.

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

	Nine months ended September 30,	
	2018	2017
Net income	$ 10,269	$ 5,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,871	1,309
Provision for loan losses	1,977	1,145
Amortization of purchase accounting adjustments	(1,854)	(234)
Provision for other real estate owned	—	183
Net amortization of securities	449	834
Gain on sale of investment securities, net	(37)	(242)
Gain on sale of fixed assets, net	(98)	(184)
Loss (gain) on sale of other real estate owned, net	4	(32)
FHLB stock dividend	(162)	(65)
Stock-based compensation	799	587
Deferred taxes	820	(210)
Net change in value of bank owned life insurance	(471)	(154)
Amortization of subordinated debt issuance costs	35	23
Unrealized gain on equity securities	(22)	—
Net change in:		
Accrued interest receivable	(385)	(276)
Other assets	290	(195)
Accrued taxes and other liabilities	(1,335)	(1,045)
Net cash provided by operating activities	12,150	7,362
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	7,021	82,537
Purchases of securities available for sale	(48,886)	(95,614)
Proceeds from maturities, prepayments and calls of investment securities available for sale	22,254	19,702
Proceeds from maturities, prepayments and calls of investment securities held to maturity	930	741
Proceeds from redemption or sale of equity securities	1,047	1,307
Purchase of equity securities	(2,870)	(3,624)
Net increase in loans	(99,225)	(88,313)
Proceeds from sales of other real estate owned	37	513
Proceeds from the sales of fixed assets	19	601
Purchases of other real estate owned	(227)	—
Purchases of fixed assets	(3,878)	(1,214)
Purchase of other investments	(119)	(624)
Distributions from investments	31	12
Cash paid for Citizens, net of cash acquired	—	(1,235)
Net cash used in investing activities	(123,866)	(85,211)

INVESTAR HOLDING CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

(Amounts in thousands)

(Unaudited)

Cash flows from financing activities:		
Net increase (decrease) in customer deposits	70,515	(18,603)
Net decrease in repurchase agreements	(4,004)	(14,195)
Net increase in short-term FHLB advances	22,500	38,500
Proceeds from long-term FHLB advances	75,000	45,000
Repayment of long-term FHLB advances	(56,100)	(3,603)
Cash dividends paid on common stock	(1,032)	(457)
Proceeds from public offering of common stock, net of issuance costs	—	32,509
Proceeds from stock options and warrants exercised	1,037	889
Payments to repurchase common stock	(1,833)	(264)
Proceeds from other borrowings	—	78
Repayment of other borrowings	—	(1,078)
Proceeds from subordinated debt, net of issuance costs	—	18,133
Net cash provided by financing activities	106,083	96,909
Net change in cash and cash equivalents	(5,633)	19,060
Cash and cash equivalents, beginning of period	30,421	29,448
Cash and cash equivalents, end of period	$ 24,788	$ 48,508

See accompanying notes to the consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements of Investar Holding Corporation (the "Company") have been prepared in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include information or footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with GAAP. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the three and nine month periods ended September 30, 2018 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, 2017 , 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 ("SEC") on March 16, 2018.

Nature of Operations

Investar Holding Corporation, headquartered in Baton Rouge, Louisiana, provides full banking services, excluding trust services, through its wholly-owned banking subsidiary, Investar Bank (the "Bank"), a Louisiana-chartered bank. The Company's primary market is South Louisiana. At September 30, 2018 , the Company operated 20 full service banking offices located throughout its market and had 253 employees.

Principles of Consolidation

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

Use of Estimates

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

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

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

Investment Securities

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

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

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

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

Loans

The Company's loan portfolio categories include real estate, commercial and consumer loans. Real estate loans are further categorized into construction and development, 1-4 family residential, multifamily, farmland and commercial real estate loans. The consumer loan category includes loans originated through indirect lending. Indirect lending, which is lending initiated through third-party business partners, is largely comprised of loans made through automotive dealerships.

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

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

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

Allowance for Loan Losses

The adequacy of the allowance for loan losses is determined in accordance with GAAP. The allowance for loan losses is estimated through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan balance is uncollectable. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb probable losses inherent in the loan portfolio as of the balance sheet date based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Credits deemed uncollectible are charged to the allowance. Provisions for loan losses and recoveries on loans previously charged off are added to the allowance. Past due status is determined based on contractual terms.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. Based on management's review and observations made through qualitative review, management may apply qualitative adjustments to determine loss estimates at a group and/or portfolio segment level as deemed appropriate. Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in its portfolio and portfolio segments. The Company utilizes an internally developed model that requires judgment to determine the estimation method that fits the credit risk characteristics of the loans in its portfolio and portfolio segments. Qualitative and environmental factors that may not be directly reflected in quantitative estimates include: asset quality trends, changes in loan concentrations, new products and process changes, changes and pressures from competition, changes in lending policies and underwriting practices, trends in the nature and volume of the loan portfolio, changes in experience and depth of lending staff and management and national and regional economic trends. Changes in these factors are considered in determining changes in the allowance for loan losses. The impact of these factors on the Company's qualitative assessment of the allowance for loan losses can change from period to period based on management's assessment of the extent to which these factors are already reflected in historic loss rates. The uncertainty inherent in the estimation process is also considered in evaluating the allowance for loan losses.

In the ordinary course of business, the Bank enters into commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded lending commitments is included in other liabilities in the balance sheet. At September 30, 2018 and December 31, 2017 the reserve for unfunded loan commitments was $101,000 and $32,000 , respectively.

Acquisition Accounting

Acquisitions are accounted for under the purchase method of accounting. Purchased assets and assumed liabilities are recorded at their respective acquisition date fair values, and identifiable intangible assets are recorded at fair value. If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. If the fair value of the net assets received exceeds the consideration given, a bargain purchase gain is recognized. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available.

Purchased loans acquired in a business combination are recorded at their estimated fair value as of the acquisition date. The fair value of loans acquired is determined using a discounted cash flow model based on assumptions regarding the amount and timing of principal and interest prepayments, estimated payments, estimated default rates, estimated loss severity in the event of defaults, and current market rates. Estimated credit losses are included in the determination of fair value; therefore, an allowance for loan losses is not recorded on the acquisition date. The fair value adjustment is amortized over the life of the loan using the effective interest method, except for those loans accounted for under ASC Topic 310-30, discussed below.

The Company accounts for acquired impaired loans under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"). An acquired loan is considered impaired when there is evidence of credit deterioration since origination and it is probable, at the date of acquisition, that we will be unable to collect all contractually required payments. ASC 310-30 prohibits the carryover of an allowance for loan losses for acquired impaired loans. Over the life of the acquired loans, we continually estimate the cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics. As of the end of each fiscal quarter, we evaluate the present value of the acquired loans using the effective interest rates. For any increases in cash flows expected to be collected, we adjust the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life, while we recognize a provision for loan loss in the consolidated statement of operations if the cash flows expected to be collected have decreased.

Servicing Rights

Primary servicing rights represent the Company's right to service consumer automobile loans for third-party whole-loan sales and loans sold as participations. Primary servicing involves the collection of payments from individual borrowers and the distribution of these payments to the investors.

The Company capitalizes the value expected to be realized from performing specified automobile servicing activities for others as automobile servicing rights ("ASRs") when the expected future cash flows from servicing are projected to be more than adequate compensation for such activities. These capitalized servicing rights are purchased or retained upon sale of consumer automobile loans.

The Company measures all consumer automobile servicing assets and liabilities at fair value. The Company defines servicing rights based on both the availability of market inputs and the manner in which the Company manages the risks of servicing assets and liabilities. The Company leverages all available relevant market data to determine the fair value of recognized servicing assets and liabilities.

The Company calculates the fair value of ASRs using various assumptions including future cash flows, market discount rates, expected prepayments, servicing costs and other factors. A significant change in prepayments of loans in the servicing portfolio could result in significant changes in the valuation adjustments, thus creating potential volatility in the carrying amount of ASRs.

For the nine months ended September 30, 2018 and 2017, expected future cash flows from ASRs approximated adequate compensation for such activities. Accordingly, the Company has not recorded an asset or liability. There were no loan sales during the nine months ended September 30, 2018 or 2017.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to be consistent with the 2018 presentation, if applicable.

Concentrations of Credit Risk

The Company's loan portfolio consists of the various types of loans described in Note 5. Loans and Allowance for Loan Losses. 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.

Tax Cuts and Jobs Act

Public law No. 115-97, known as the Tax Cuts and Jobs Act (the "Tax Act"), enacted on December 22, 2017, reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. Also on December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for tax effects of the Tax Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Any adjustments during this measurement period will be included in net earnings from continuing operations as an adjustment to income tax expense in the reporting period when such adjustments are determined. Based on the information available and current interpretation of the rules, the Company recorded the impact of the reduction in the corporate tax rate and remeasurement of certain deferred tax assets and liabilities. The amount recorded in the fourth quarter of 2017 related to the remeasurement of the Company's deferred tax balance and resulted in additional income tax expense of $0.3 million . An additional $0.6 million was expensed in the first quarter of 2018 due to the remeasurement of the Company's deferred tax balance.

Accounting Standards Adopted in 2018

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

FASB ASC Topic 825 "Financial Instruments – Overall" Update No. 2016-01 ("ASU 2016-01"). ASU 2016-01 makes targeted amendments to the guidance for recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 requires equity investments, other than equity method investments, to be measured at fair value with changes in fair value recognized in net income. The ASU requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption to reclassify the cumulative change in fair value of equity securities previously recognized in accumulated other comprehensive income (AOCI). ASU 2016-01 became effective for the Company on January 1, 2018. The adoption of the guidance resulted in an insignificant cumulative-effect adjustment that decreased retained earnings, with offsetting related adjustments to deferred taxes and AOCI. The adoption of this ASU also resulted in equity securities previously classified as AFS securities to be classified as equity securities at fair value in the Company's September 30, 2018 Consolidated Balance Sheet. ASU 2016-01 also emphasizes the existing requirement to use exit prices to measure fair value for disclosure purposes and clarifies that entities should not make use of a practicability exception in determining the fair value of loans. Accordingly, we refined the calculation used to determine the disclosed fair value of our loans held for investment portfolio as part of adopting this standard. The refined calculation did not have a significant impact on our fair value disclosures. See Note 9. Fair Values of Financial Instruments.

As a result of the adoption of ASU 2016-01, $1.4 million of equity securities was reclassified from AFS securities to equity securities in the first quarter of 2018. At September 30, 2018, equity securities include $0.6 million of exchange-traded equity securities that are measured at fair value with changes in fair value recognized in net income. The remaining balance of equity securities at September 30, 2018 consists of stock in correspondent banks and is measured at cost, adjusted for any observable market transactions less any impairment. ASU 2016-01 also requires that other investments previously accounted for using the cost method be measured at fair value with changes in fair value recognized in net income. These investments, which had a $1.4 million balance at September 30, 2018, are included in other assets in the consolidated balance sheet and represent investments in small business investment companies without readily determinable fair values. These investments are measured at fair value using the net asset value of the investment and any changes in fair value are recognized in net income.

FASB ASC Topic 606 "Revenue from Contracts with Customers" Update No. 2014-09 ("ASU 2014-09"). ASU 2014-09 was effective for the Company on January 1, 2018. ASU 2014-09 amends existing guidance related to revenue from contracts with customers by (i) creating a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revising when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned ("OREO"). The Company adopted ASU 2014-09 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under the new guidance while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASU 2014-09 did not result in a significant change to the accounting for any in-scope revenue streams. As such, no cumulative effect adjustment was recorded. The majority of the Company's revenues comes from interest income from loans and securities, which falls outside the scope of ASU 2014-09. The Company's services that fall within the scope of ASU 2014-09 are primarily included within noninterest income in the consolidated income statements and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of the new guidance include service charges on deposit accounts, interchange fees and other fees, and the sale of OREO. The adoption of this ASU was not significant to the Company and had no material effect on how the Company recognizes revenue nor did it result in any presentation changes to the consolidated financial statements.

Recent Accounting Pronouncements

FASB ASC Topic 250 "Intangibles - Goodwill and Other - Internal Use Software (Subtopic 250-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" Update No. 2018-15. In August 2018, the FASB issued ASU 2018-15. This ASU requires an entity in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. Capitalized implementation costs should be presented in the same line item on the balance sheet as amounts prepaid for the hosted service, if any (generally as an "other asset"). The capitalized costs will be amortized over the term of the hosting arrangement, with the amortization expense being presented in the same income statement line item as the fees paid for the hosted service. ASU 2018-15 is effective for the Company on January 1, 2020. Early adoption is permitted, including adoption in any interim period. The adoption of ASU 2018-15 is not expected to have a material impact on the Company's consolidated financial statements.

FASB ASC Topic 820 "Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement" Update No. 2018-13. In August 2018, the FASB issued ASU 2018-13, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 removes the disclosure requirement detailing the amount of and reasons for transfers between Level 1 and Level 2 and the valuation processes for Level 3 fair value measurements will be removed. In addition, this ASU modifies the disclosure requirement for investments in certain entities that calculate net asset value. Lastly, ASU 2018-13 adds a disclosure requirement for changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 measurements. ASU 2018-13 is effective for the Company on January 1, 2020. Early adoption is permitted upon the issuance of ASU 2018-13. The removed and modified disclosures will be adopted on a retrospective basis, and the new disclosures will be adopted on a prospective basis. The adoption of ASU 2018-13 is not expected to have a material impact on the Company's consolidated financial statements.

FASB ASC Topic 718 "Compensation - Stock Compensation: Improvements to Nonemployees Share-Based Payment Accounting" Update No. 2018-07. In June 2018, the FASB issued ASU 2018-07, which expands the scope of Topic 718 (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. As this ASU becomes effective, the accounting for share-based payments for nonemployees and employees will be substantially the same. The ASU supersedes Subtopic 505-50, "Equity – Equity-Based Payments to Non-Employees". ASU 2018-07 is effective for the Company on January 1, 2019. The adoption of ASU 2018-07 is not expected to have a material impact on the Company's consolidated financial statements.

FASB ASC Topic 815 "Derivatives and Hedging" Update No. 2017-12. The FASB issued ASU No. 2017-12 in August 2017. The ASU amends the hedge accounting model in Topic 815 to enable entities to better portray the economics of their risk management activities in the financial statements and enhance the transparency and understandability of hedge results. The amendments expand an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. This amended guidance is effective for the Company on January 1, 2019, and, given the current level of derivatives designated as hedges, is not expected to have a material impact on our consolidated operating results or financial condition.

FASB ASC Subtopic 310-20 "Receivables – Nonrefundable Fees and Other Costs, Premium Amortization on Purchased Callable Debt Securities" Update No. 2017-08. The FASB issued ASU No. 2017-08 in March 2017. The amendments in the ASU shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. Update 2017-08 will be effective for the Company beginning January 1, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is assessing the impact of ASU 2017-08 on its accounting and disclosures.

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

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

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

FASB ASC Topic 842 "Leases" Update No. 2016-02. In February 2016, the FASB issued ASU 2016-02. This ASU will require all organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Additional qualitative and quantitative disclosures will be required so that users can understand more about the nature of an entity's leasing activities. The new guidance is effective for the Company beginning January 1, 2019. Early adoption is permitted. Management is currently analyzing data on leased assets. The adoption of this guidance is expected to increase both assets and liabilities, but is not expected to have a material impact on the consolidated statements of income.

NOTE 2. BUSINESS COMBINATIONS

Citizens Bancshares, Inc.

On July 1, 2017, the Company completed the acquisition of Citizens Bancshares, Inc. ("Citizens") and its wholly-owned subsidiary, Citizens Bank, located in Evangeline Parish, Louisiana. The Company acquired 100% of Citizens' outstanding common shares for an aggregate amount of cash consideration equal to $45.8 million , or approximately $419.20 per share. The acquisition of Citizens expanded the Company's branch footprint in Louisiana and increased the core deposit base to help position the Company to continue to grow. There were certain adjustments to the initial calculation of goodwill during the open measurement period in 2018 which were not material. As consideration paid was in excess of the net fair value of acquired assets, the Company recorded $9.1 million of goodwill.

The table below shows the allocation of the consideration paid for Citizens' common equity to the acquired identifiable assets and liabilities assumed and the goodwill generated from the transaction (dollars in thousands).

Purchase price:		
Cash paid	$	45,800
Fair value of assets acquired:		
Cash and cash equivalents		44,565
Investment securities		69,912
Loans		129,181
Bank premises and equipment		3,307
Core deposit intangible asset		1,462
Other assets		2,223
Total assets acquired		250,650
Fair value of liabilities acquired:		
Deposits		212,228
Other liabilities		1,675
Total liabilities assumed		213,903
Fair value of net assets acquired		36,747
Goodwill	$	9,053

Fair value adjustments to assets acquired and liabilities assumed are generally amortized using the effective yield method over periods consistent with the average life, useful life and/or contractual term of the related assets and liabilities.

The fair value of net assets acquired includes a fair value adjustment to loans as of the acquisition date. The adjustment for the acquired loan portfolio is based on current market interest rates and the Company's initial evaluation of credit losses identified.

The tables below present information about the loans acquired with deteriorated credit quality from Citizens as of the date of acquisition (dollars in thousands).

	Purchase Credit Impaired	
Contractually required principal	$	5,123
Non-accretable difference		(700)
Cash flows expected to be collected		4,423
Accretable yield		—
Fair value of acquired loans	$	4,423

BOJ Bancshares, Inc.

On December 1, 2017, the Company completed the acquisition of BOJ Bancshares, Inc. ("BOJ") and its wholly-owned subsidiary, The Highlands Bank, located in East Feliciana Parish, Louisiana. The Company acquired 100% of BOJ's outstanding common shares for an aggregate merger consideration consisting of $3.95 million in cash, and an aggregate of 799,559 shares of the Company's common stock, for a total of approximately $22.7 million . As with the Citizens acquisition, the acquisition of BOJ expanded the Company's branch footprint in Louisiana, allowing us to serve more customers in our surrounding market areas. After fair value adjustments, including total adjustments of $(0.3) million to loans, bank premises and equipment, other assets, and deposits recorded during the open measurement period in 2018, the acquisition added $152.1 million in total assets, $102.4 million in loans, and $125.8 million in deposits. As consideration paid was in excess of the net fair value of acquired assets, the Company recorded $5.7 million of goodwill.

The table below shows the allocation of the consideration paid for BOJ's common equity to the acquired identifiable assets and liabilities assumed and the goodwill generated from the transaction (dollars in thousands). The fair values listed below, primarily related to loans and deferred tax assets and liabilities, are subject to refinement for up to one year after the closing date of the acquisition as additional information becomes available.

Purchase price:		
Cash paid	$	3,950
Stock Issued		18,749
Fair value of assets acquired:		
Cash and cash equivalents		26,438
Investment securities		16,194
Loans		102,393
Bank premises and equipment		3,725
Core deposit intangible asset		1,018
Other assets		2,375
Total assets acquired		152,143
Fair value of liabilities acquired:		
Deposits		125,788
FHLB advances		5,956
Trust preferred		2,178
Other liabilities		1,209
Total liabilities assumed		135,131
Fair value of net assets acquired		17,012
Goodwill	$	5,687

Fair value adjustments to assets acquired and liabilities assumed are generally amortized using the effective yield method over periods consistent with the average life, useful life and/or contractual term of the related assets and liabilities.

The fair value of net assets acquired includes a fair value adjustment to loans as of the acquisition date. The adjustment for the acquired loan portfolio is based on current market interest rates, and the Company's initial evaluation of credit losses identified.

The table below presents information about the loans acquired with deteriorated credit quality from BOJ as of the date of acquisition (dollars in thousands).

	Purchase Credit Impaired	
Contractually required principal	$	4,557
Non-accretable difference		(671)
Cash flows expected to be collected		3,886
Accretable yield		—
Fair value of acquired loans	$	3,886

Supplemental Unaudited Pro Forma Information

The following unaudited supplemental pro forma information is presented to show estimated results assuming Citizens and BOJ were acquired as of January 1, 2017. These unaudited pro forma results are not necessarily indicative of the operating results that the Company would have achieved had it completed the acquisitions as of January 1, 2017 and should not be considered representative of future operating results. The pro forma net income for the three months ended September 30, 2017 excludes the tax-affected amount of $0.7 million of acquisition expenses recorded in noninterest expense by the Company and BOJ. The pro forma net income for the nine months ended September 30, 2017 excludes the tax-affected amount of $1.5 million of acquisition expenses recorded in noninterest expense by the Company, Citizens, and BOJ.

	Unaudited Pro Forma for the			
	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands)	2017		2017	
Interest income	$	15,966	$	46,065
Noninterest income		1,436		4,106
Net income		3,001		8,206

For the three months ended September 30, 2018 , the acquired companies added approximately $3.3 million , $0.4 million , and $1.1 million to interest income, noninterest income, and net income, respectively. For the nine months ended September 30, 2018 , the acquired companies added approximately $10.5 million , $1.2 million , and $2.5 million to interest income, noninterest income, and net income, respectively.

Acquisition Expense

There were no acquisition expenses recorded in the three months ended September 30, 2018 . Acquisition related costs of $1.1 million are included in acquisition expenses in the accompanying consolidated statements of income for the nine months ended September 30, 2018 . These costs include system conversion and integrating operations charges as well as legal and consulting expenses.

NOTE 3. EARNINGS PER SHARE

The following is a summary of the information used in the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2018 and 2017 (in thousands, except share data).

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Earnings per common share - basic				
Net income allocated to common shareholders	$ 3,990	$ 2,131	$ 10,125	$ 5,918
Weighted-average basic shares outstanding	9,563,550	8,702,559	9,545,436	8,203,645
Basic earnings per common share	$ 0.42	$ 0.24	$ 1.06	$ 0.72
Earnings per common share - diluted				
Net income allocated to common shareholders	$ 3,990	$ 2,131	$ 10,126	$ 5,918
Weighted-average basic shares outstanding	9,563,550	8,702,559	9,545,436	8,203,645
Dilutive effect of securities	119,330	94,958	133,503	76,350
Total weighted average diluted shares outstanding	9,682,880	8,797,517	9,678,939	8,279,995
Diluted earnings per common share	$ 0.41	$ 0.24	$ 1.05	$ 0.71

The weighted average shares that have an antidilutive effect in the calculation of diluted earnings per common share and have been excluded from the computations above are shown below.

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Stock Options	31,788	36,177	24,918	28,138

NOTE 4. INVESTMENT SECURITIES

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

September 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government agencies and corporations	$ 8,098	$ 2	$ (232)	$ 7,868
Obligations of state and political subdivisions	35,060	3	(1,102)	33,961
Corporate bonds	16,022	22	(500)	15,544
Residential mortgage-backed securities	120,778	11	(3,813)	116,976
Commercial mortgage-backed securities	58,485	4	(2,091)	56,398
Total	$ 238,443	$ 42	$ (7,738)	$ 230,747

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government agencies and corporations	$ 8,241	$ 8	$ (81)	$ 8,168
Obligations of state and political subdivisions	35,572	87	(422)	35,237
Corporate bonds	16,428	112	(330)	16,210
Residential mortgage-backed securities	110,690	58	(1,270)	109,478
Commercial mortgage-backed securities	48,299	16	(686)	47,629
Equity securities	847	24	(29)	842
Total	$ 220,077	$ 305	$ (2,818)	$ 217,564

The amortized cost and approximate fair value balances of obligations of U.S. government agencies and corporations at December 31, 2017 reflect reclasses of small business association securities that are collateralized by commercial mortgages and backed by the U.S. government. These securities were included in the commercial mortgage-backed securities category of our investment portfolio at December 31, 2017 to conform with the presentation of balances at September 30, 2018 .

Proceeds from sales of investment securities AFS and gross gains and losses are summarized below for the periods presented (dollars in thousands).

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Proceeds from sale	$ 7,021	$ 63,488	$ 7,021	$ 82,537
Gross gains	$ 35	$ 27	$ 35	$ 275
Gross losses	$ (20)	$ —	$ (20)	$ (33)

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

September 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of state and political subdivisions	$ 11,531	$ —	$ (109)	$ 11,422
Residential mortgage-backed securities	5,499	—	(230)	5,269
Total	$ 17,030	$ —	$ (339)	$ 16,691

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of state and political subdivisions	$ 11,861	$ 9	$ (15)	$ 11,855
Residential mortgage-backed securities	6,136	4	(48)	6,092
Total	$ 17,997	$ 13	$ (63)	$ 17,947

Securities are classified in the consolidated balance sheets according to management's intent. The Company had no securities classified as trading as of September 30, 2018 or December 31, 2017 .

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

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

		Less than 12 Months		12 Months or More		Total	
September 30, 2018	Count	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government agencies and corporations	18	$ 3,857	$ (80)	$ 3,873	$ (152)	$ 7,730	$ (232)
Obligations of state and political subdivisions	66	20,855	(529)	12,986	(573)	33,841	(1,102)
Corporate bonds	29	7,561	(63)	5,811	(437)	13,372	(500)
Residential mortgage-backed securities	209	49,705	(1,102)	65,629	(2,711)	115,334	(3,813)
Commercial mortgage-backed securities	112	23,255	(540)	32,317	(1,551)	55,572	(2,091)
Total	434	$ 105,233	$ (2,314)	$ 120,616	$ (5,424)	$ 225,849	$ (7,738)

		Less than 12 Months		12 Months or More		Total	
December 31, 2017	Count	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government agencies and corporations	14	$ 5,815	$ (50)	$ 1,505	$ (31)	$ 7,320	$ (81)
Obligations of state and political subdivisions	57	12,315	(77)	9,930	(345)	22,245	(422)
Corporate bonds	20	1,116	(6)	6,273	(324)	7,389	(330)
Residential mortgage-backed securities	159	71,893	(729)	28,410	(541)	100,303	(1,270)
Commercial mortgage-backed securities	80	30,445	(406)	11,216	(280)	41,661	(686)
Equity securities	1	—	—	478	(29)	478	(29)
Total	331	$ 121,584	$ (1,268)	$ 57,812	$ (1,550)	$ 179,396	$ (2,818)

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

		Less than 12 Months		12 Months or More		Total	
September 30, 2018	**Count**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Obligations of state and political subdivisions	8	$ 11,422	$ (109)	$ —	$ —	$ 11,422	$ (109)
Residential mortgage-backed securities	9	3,018	(106)	2,251	(124)	5,269	(230)
Total	17	$ 14,440	$ (215)	$ 2,251	$ (124)	$ 16,691	$ (339)

		Less than 12 Months		12 Months or More		Total	
December 31, 2017	**Count**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Obligations of state and political subdivisions	1	$ 6,007	$ (15)	$ —	$ —	$ 6,007	$ (15)
Residential mortgage-backed securities	6	1,601	(3)	2,522	(45)	4,123	(48)
Total	7	$ 7,608	$ (18)	$ 2,522	$ (45)	$ 10,130	$ (63)

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 September 30, 2018 or December 31, 2017 .

The amortized cost and approximate fair value of debt securities, by contractual maturity (including mortgage-backed securities), are shown below as of the dates presented (dollars in thousands). 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.

	Securities Available For Sale		Securities Held To Maturity	
September 30, 2018	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due within one year	$ 4,105	$ 4,095	$ 720	$ 720
Due after one year through five years	10,492	10,326	3,245	3,244
Due after five years through ten years	33,767	32,690	1,875	1,874
Due after ten years	190,079	183,636	11,190	10,853
Total debt securities	$ 238,443	$ 230,747	$ 17,030	$ 16,691

	Securities Available For Sale		Securities Held To Maturity	
December 31, 2017	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due within one year	$ 1,319	$ 1,319	$ 720	$ 721
Due after one year through five years	15,379	15,331	3,245	3,249
Due after five years through ten years	28,242	27,833	1,875	1,878
Due after ten years	174,290	172,239	12,157	12,099
Total debt securities	$ 219,230	$ 216,722	$ 17,997	$ 17,947

At September 30, 2018 , securities with a carrying value of $90.4 million were pledged to secure certain deposits, borrowings, and other liabilities, compared to $90.8 million in pledged securities at December 31, 2017 .

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	September 30, 2018	December 31, 2017
Construction and development	$ 160,921	$ 157,667
1-4 Family	286,976	276,922
Multifamily	50,770	51,283
Farmland	20,902	23,838
Commercial real estate	592,996	537,364
Total mortgage loans on real estate	1,112,565	1,047,074
Commercial and industrial	193,563	135,392
Consumer	52,284	76,313
Total loans	$ 1,358,412	$ 1,258,779

Unamortized premiums and discounts on loans, included in the total loans balances above, were $1.6 million and $2.6 million at September 30, 2018 and December 31, 2017 , respectively.

Nonaccrual and Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, we consider the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regard to our collateral position. Regulatory provisions would typically require the placement of a loan on nonaccrual status if (i) principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection or (ii) full payment of principal and interest is not expected. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income on nonaccrual loans is recognized only to the extent that cash payments are received in excess of principal due. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

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

	September 30, 2018							
	Accruing							
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Past Due & Nonaccrual	Acquired Impaired Loans	Total Loans
Construction and development	$ 160,161	$ 39	$ —	$ —	$ 705	$ 744	$ 16	$ 160,921
1-4 Family	283,910	839	264	—	1,438	2,541	525	286,976
Multifamily	50,770	—	—	—	—	—	—	50,770
Farmland	18,638	—	—	—	—	—	2,264	20,902
Commercial real estate	589,990	131	—	67	766	964	2,042	592,996
Total mortgage loans on real estate	1,103,469	1,009	264	67	2,909	4,249	4,847	1,112,565
Commercial and industrial	192,093	194	6	—	66	266	1,204	193,563
Consumer	50,815	379	63	—	982	1,424	45	52,284
Total loans	$ 1,346,377	$ 1,582	$ 333	$ 67	$ 3,957	$ 5,939	$ 6,096	$ 1,358,412

	December 31, 2017							
	Accruing							
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Past Due & Nonaccrual	Acquired Impaired Loans	Total Loans
Construction and development	$ 157,123	$ 225	$ —	$ —	$ 34	$ 259	$ 285	$ 157,667
1-4 Family	273,321	1,396	185	56	478	2,115	1,486	276,922
Multifamily	50,271	—	—	—	—	—	1,012	51,283
Farmland	19,619	—	—	58	—	58	4,161	23,838
Commercial real estate	535,014	107	89	—	67	263	2,087	537,364
Total mortgage loans on real estate	1,035,348	1,728	274	114	579	2,695	9,031	1,047,074
Commercial and industrial	133,009	977	67	—	10	1,054	1,329	135,392
Consumer	74,409	610	152	20	1,118	1,900	4	76,313
Total loans	$ 1,242,766	$ 3,315	$ 493	$ 134	$ 1,707	$ 5,649	$ 10,364	$ 1,258,779

Credit Quality Indicators

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

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

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

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

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

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

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

	September 30, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and development	$ 160,273	$ —	$ 648	$ —	$ 160,921
1-4 Family	285,196	69	1,681	30	286,976
Multifamily	50,770	—	—	—	50,770
Farmland	18,638	—	2,264	—	20,902
Commercial real estate	591,562	—	1,434	—	592,996
Total mortgage loans on real estate	1,106,439	69	6,027	30	1,112,565
Commercial and industrial	190,578	—	2,985	—	193,563
Consumer	51,079	222	983	—	52,284
Total loans	$ 1,348,096	$ 291	$ 9,995	$ 30	$ 1,358,412

	December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and development	$ 157,385	$ —	$ 282	$ —	$ 157,667
1-4 Family	275,492	74	1,356	—	276,922
Multifamily	51,283	—	—	—	51,283
Farmland	19,611	2,773	1,454	—	23,838
Commercial real estate	536,741	—	623	—	537,364
Total mortgage loans on real estate	1,040,512	2,847	3,715	—	1,047,074
Commercial and industrial	134,522	—	870	—	135,392
Consumer	74,934	258	1,121	—	76,313
Total loans	$ 1,249,968	$ 3,105	$ 5,706	$ —	$ 1,258,779

The Company had no loans that were classified as loss at September 30, 2018 or December 31, 2017 .

Loan participations and whole loans sold to and serviced for others are not included in the accompanying consolidated balance sheets. The balance of loans serviced for others was $144.7 million and $204.2 million as of September 30, 2018 and December 31, 2017 , respectively. The unpaid principal balance of these loans was approximately $186.3 million and $237.3 million as of September 30, 2018 and December 31, 2017 , respectively.

In the ordinary course of business, the Company makes loans to related parties including its executive officers, principal stockholders, directors and their immediate family members, as well as companies in which these individuals are principal owners. Loans outstanding to such related party borrowers amounted to approximately $29.0 million and $31.2 million as of September 30, 2018 and December 31, 2017 , respectively. During the three months ended September 30, 2018 , a related party loan in the amount of $0.7 million was classified as Substandard and placed on nonaccrual.

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

	September 30, 2018	December 31, 2017
Balance, beginning of period	$ 31,153	$ 19,957
New loans	9,824	24,428
Repayments and changes in relationship	(12,013)	(13,232)
Balance, end of period	$ 28,964	$ 31,153

Loans Acquired with Deteriorated Credit Quality

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Balance, beginning of period	$ —	$ —	$ —	$ 275
Loan disposals	—	(53)	—	(303)
Accretion to interest income	—	53	—	28
Balance at September 30,	$ —	$ —	$ —	$ —

The table below shows a summary of the activity in the allowance for loan losses for the three and nine months ended September 30, 2018 and 2017 (dollars in thousands).

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Balance, beginning of period	$ 8,451	$ 7,320	$ 7,891	$ 7,051
Provision for loan losses	785	420	1,977	1,145
Loans charged off	(264)	(155)	(1,001)	(635)
Recoveries	49	20	154	44
Balance, end of period	$ 9,021	$ 7,605	$ 9,021	$ 7,605

The following tables outline the activity in the allowance for loan losses by collateral type for the three and nine months ended September 30, 2018 and 2017 , and show both the allowances and portfolio balances for loans individually and collectively evaluated for impairment as of September 30, 2018 and 2017 (dollars in thousands).

	Three months ended September 30, 2018							
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	$ 1,018	$ 66	$ 1,339	$ 319	$ 3,817	$ 1,048	$ 844	$ 8,451
Provision	7	8	101	14	113	454	88	785
Charge-offs	(8)	—	(44)	—	—	(30)	(182)	(264)
Recoveries	2	—	14	—	—	13	20	49
Ending balance	$ 1,019	$ 74	$ 1,410	$ 333	$ 3,930	$ 1,485	$ 770	$ 9,021

	Three months ended September 30, 2017							
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	$ 806	$ 54	$ 1,276	$ 361	$ 3,036	$ 683	$ 1,104	$ 7,320
Provision	28	6	(19)	(21)	227	135	64	420
Charge-offs	—	—	—	—	—	(77)	(78)	(155)
Recoveries	14	—	2	—	—	—	4	20
Ending balance	$ 848	$ 60	$ 1,259	$ 340	$ 3,263	$ 741	$ 1,094	$ 7,605

	Nine months ended September 30, 2018							
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	$ 945	$ 60	$ 1,287	$ 332	$ 3,599	$ 693	$ 975	$ 7,891
Provision	88	14	182	1	331	1,219	142	1,977
Charge-offs	(24)	—	(79)	—	—	(481)	(417)	(1,001)
Recoveries	10	—	20	—	—	54	70	154
Ending balance	$ 1,019	$ 74	$ 1,410	$ 333	$ 3,930	$ 1,485	$ 770	$ 9,021
Ending allowance balance for loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ 246	$ 246
Ending allowance balance for loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—
Ending allowance balance for loans collectively evaluated for impairment	$ 1,019	$ 74	$ 1,410	$ 333	$ 3,930	$ 1,485	$ 524	$ 8,775
Loans receivable:								
Balance of loans individually evaluated for impairment	$ 222	$ —	$ 1,911	$ —	$ 711	$ 78	$ 910	$ 3,832
Balance of loans acquired with deteriorated credit quality	16	2,264	525	—	2,042	1,204	45	6,096
Balance of loans collectively evaluated for impairment	160,683	18,638	284,540	50,770	590,243	192,281	51,329	1,348,484
Total period-end balance	$ 160,921	$ 20,902	$ 286,976	$ 50,770	$ 592,996	$ 193,563	$ 52,284	$ 1,358,412

	Nine months ended September 30, 2017							
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	$ 579	$ 60	$ 1,377	$ 355	$ 2,499	$ 759	$ 1,422	$ 7,051
Provision	241	—	(122)	(15)	764	252	25	1,145
Charge-offs	—	—	—	—	—	(270)	(365)	(635)
Recoveries	28	—	4	—	—	—	12	44
Ending balance	$ 848	$ 60	$ 1,259	$ 340	$ 3,263	$ 741	$ 1,094	$ 7,605
Ending allowance balance for loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ 336	$ 336
Ending allowance balance for loans collectively evaluated for impairment	848	60	1,259	340	3,263	741	758	7,269
Ending allowance balance for loans acquired with deteriorated credit quality	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans receivable:								
Balance of loans individually evaluated for impairment	$ 186	$ —	$ 1,452	$ —	$ 651	$ 6	$ 1,182	$ 3,477
Balance of loans collectively evaluated for impairment	122,315	14,130	250,551	50,770	461,771	125,224	82,283	1,107,044
Total period-end balance	$ 122,501	$ 14,130	$ 252,003	$ 50,770	$ 462,422	$ 125,230	$ 83,465	$ 1,110,521
Balance of loans acquired with deteriorated credit quality	$ 55	$ —	$ 2,814	$ 1,806	$ 3,033	$ 1,884	$ 5	$ 9,597

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. 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.

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

The following tables contain information on the Company's impaired loans, which include troubled debt restructurings ("TDRs"), discussed in more detail below, and nonaccrual loans individually evaluated for impairment for purposes of determining the allowance for loan losses. The average balances are calculated based on the month-end balances of the loans during the period reported (dollars in thousands).

	September 30, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Construction and development	$ 222	$ 240	$ —
1-4 Family	1,911	1,921	—
Commercial real estate	711	727	—
Total mortgage loans on real estate	2,844	2,888	—
Commercial and industrial	78	78	—
Consumer	202	228	—
Total	3,124	3,194	—
With related allowance recorded:			
Consumer	708	745	246
Total	708	745	246
Total loans:			
Construction and development	222	240	—
1-4 Family	1,911	1,921	—
Commercial real estate	711	727	—
Total mortgage loans on real estate	2,844	2,888	—
Commercial and industrial	78	78	—
Consumer	910	973	246
Total	$ 3,832	$ 3,939	$ 246

	December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Construction and development	$ 182	$ 202	$ —
1-4 Family	1,136	1,169	—
Commercial real estate	640	654	—
Total mortgage loans on real estate	1,958	2,025	—
Consumer	168	217	—
Total	2,126	2,242	—
With related allowance recorded:			
Consumer	918	956	304
Total	918	956	304
Total loans:			
Construction and development	182	202	—
1-4 Family	1,136	1,169	—
Commercial real estate	640	654	—
Total mortgage loans on real estate	1,958	2,025	—
Consumer	1,086	1,173	304
Total	$ 3,044	$ 3,198	$ 304

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 September 30,			
	2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Construction and development	$ 266	$ 3	$ 187	$ 2
1-4 Family	1,739	9	1,231	18
Commercial real estate	711	2	632	8
Total mortgage loans on real estate	2,716	14	2,050	28
Commercial and industrial	76	—	22	—
Consumer	235	—	196	—
Total	3,027	14	2,268	28
With related allowance recorded:				
Consumer	693	—	933	—
Total	693	—	933	—
Total loans:				
Construction and development	266	3	187	2
1-4 Family	1,739	9	1,231	18
Commercial real estate	711	2	632	8
Total mortgage loans on real estate	2,716	14	2,050	28
Commercial and industrial	76	—	22	—
Consumer	928	—	1,129	—
Total	$ 3,720	$ 14	$ 3,201	$ 28

	Nine months ended September 30,			
	2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Construction and development	$ 203	$ 7	$ 389	$ 8
1-4 Family	1,386	30	1,517	61
Commercial real estate	923	18	613	35
Total mortgage loans on real estate	2,512	55	2,519	104
Commercial and industrial	345	—	163	—
Consumer	404	—	322	1
Total	3,261	55	3,004	105
With related allowance recorded:				
Consumer	626	—	813	1
Total	626	—	813	1
Total loans:				
Construction and development	203	7	389	8
1-4 Family	1,386	30	1,517	61
Commercial real estate	923	18	613	35
Total mortgage loans on real estate	2,512	55	2,519	104
Commercial and industrial	345	—	163	—
Consumer	1,030	—	1,135	2
Total	$ 3,887	$ 55	$ 3,817	$ 106

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 TDR. The Company strives to identify borrowers in financial difficulty early and work with them to modify their loans to more affordable terms before such loans reach nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases in which the Company grants the borrower new terms that provide for a reduction of either interest or principal, or otherwise include a concession, the Company identifies the loan as a TDR and measures any impairment on the restructuring as previously noted for impaired loans.

Loans classified as TDRs, consisting of 23 credits, totaled approximately $2.0 million at September 30, 2018 , compared to 18 credits totaling $1.6 million at December 31, 2017 . At September 30, 2018 , 15 of the restructured loans were considered TDRs due to modification of terms through adjustments to maturity, seven of the restructured loans were considered TDRs due to a reduction in the interest rate to a rate lower than the current market rate, and one restructured loan was considered a TDR due to forgiveness of interest due on the loan. As of September 30, 2018 three of the TDRs were in default of their modified terms and are included in nonaccrual loans. As of December 31, 2017 , all restructured loans were performing under their modified terms. The Company individually evaluates each TDR for allowance purposes, primarily based on collateral value, and excludes these loans from the loan population that is collectively evaluated for impairment.

At September 30, 2018 and December 31, 2017 , there were no available balances on loans classified as TDRs that the Company was committed to lend.

The table below presents the TDR pre- and post-modification outstanding recorded investments by loan categories for loans modified during the nine month periods ended September 30, 2018 and 2017 (dollars in thousands).

	September 30, 2018			September 30, 2017		
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	2	$ 358	$ 358	—	$ —	$ —
1-4 Family	7	400	400	—	—	—
Commercial and industrial	2	12	12	—	—	—
Consumer	—	—	—	1	6	6
Total		$ 770	$ 770		$ 6	$ 6

There were two loans modified under TDRs during the previous twelve month period that subsequently defaulted during the nine months ended September 30, 2018 .

NOTE 6. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Income (Loss)

Activity within the balances in accumulated other comprehensive income (loss), net is shown in the tables below (dollars in thousands).

	Three months ended September 30,					
	2018			2017		
	Beginning of Period	**Net Change**	**End of Period**	**Beginning of Period**	**Net Change**	**End of Period**
Unrealized (loss) gain, available for sale, net	$ (2,594)	$ (1,542)	$ (4,136)	$ 824	$ 95	$ 919
Reclassification of realized gain, net	(1,931)	(12)	(1,943)	(1,822)	(18)	(1,840)
Unrealized loss, transfer from available for sale to held to maturity, net	6	—	6	7	—	7
Change in fair value of interest rate swap designated as a cash flow hedge, net	744	(11)	733	82	37	119
Accumulated other comprehensive (loss) income	$ (3,775)	$ (1,565)	$ (5,340)	$ (909)	$ 114	$ (795)

	Nine months ended September 30,					
	2018			2017		
	Beginning of Period	**Net Change**	**End of Period**	**Beginning of Period**	**Net Change**	**End of Period**
Unrealized (loss) gain, available for sale, net	$ (71)	$ (4,065)	$ (4,136)	$ (401)	$ 1,320	$ 919
Reclassification of realized gain, net	(1,914)	(29)	(1,943)	(1,683)	(157)	(1,840)
Unrealized loss, transfer from available for sale to held to maturity, net	7	(1)	6	8	(1)	7
Change in fair value of interest rate swap designated as a cash flow hedge, net	407	326	733	5	114	119
Accumulated other comprehensive (loss) income	$ (1,571)	$ (3,769)	$ (5,340)	$ (2,071)	$ 1,276	$ (795)

NOTE 7. STOCK-BASED COMPENSATION

Equity Incentive Plan. The Company’s 2017 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, non-employee directors, and consultants. The Plan has reserved 600,000 shares of common stock for grant, award or issuance to eligible participants, including shares underlying granted options. The Plan is administered by the Compensation Committee of the Company’s board of directors, which determines, within the provisions of the Plan, those eligible employees to whom, and the times at which, grants and awards will be made. The Compensation Committee, in its discretion, may delegate its authority and duties under the Plan to specified officers; however, only the Compensation Committee may approve the terms of grants and awards to the Company’s executive officers and directors.

Stock Options

The Company uses a Black-Scholes option pricing model to estimate the fair value of share-based awards. The Black-Scholes option pricing model incorporates various highly subjective assumptions, including expected term and expected volatility. Stock option expense in the accompanying consolidated statements of income for the three and nine months ended September 30, 2018 was $69,000 and $0.2 million , respectively, and $57,000 and $0.2 million for the three and nine months ended September 30, 2017 , respectively.

The assumptions presented below were used for the options granted during the nine months ended September 30, 2018 .

Expected dividends		0.52%
Expected volatility		24.99%
Risk-free interest rate		2.68%
Expected term (in years)		6.5
Weighted-average grant date fair value	$	7.16

At September 30, 2018 , there was $0.7 million of unrecognized compensation cost related to stock options that is expected to be recognized over a weighted-average period of 2.22 years .

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

	Nine months ended September 30,			
	2018		2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of period	322,917	$ 15.09	319,364	$ 14.37
Granted	31,788	24.30	36,177	20.25
Forfeited	(1,333)	14.00	(5,334)	14.00
Exercised	(12,415)	14.07	(17,791)	13.53
Outstanding at end of period	340,957	$ 15.99	332,416	$ 15.06
Exercisable at end of period	99,917	$ 15.17	124,426	$ 14.38

At September 30, 2018 , the shares underlying outstanding stock options and exercisable stock options had aggregate intrinsic values of $3.7 million and $1.2 million , respectively.

Time Vested Restricted Stock Awards

During the nine months ended September 30, 2018 and 2017 , the Company issued shares of time vested restricted stock with vesting terms ranging from 2 to 5 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. Stock compensation expense related to time vested restricted stock awards in the accompanying consolidated statements of income was $0.2 million and $ 0.6 million for the three and nine months ended September 30, 2018 , respectively, and $0.1 million and $0.4 million and for the three and nine months ended September 30, 2017 , respectively.

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

	Nine months ended September 30,			
	2018		2017	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Balance at beginning of period	112,688	$ 17.28	93,366	$ 14.75
Granted	60,260	24.35	54,724	20.18
Forfeited	(2,767)	20.90	(8,259)	16.05
Earned and issued	(33,207)	16.80	(25,949)	14.80
Balance at end of period	136,974	$ 20.44	113,882	$ 17.25

At September 30, 2018 , there was $2.3 million of unrecognized compensation cost related to time vested restricted stock awards that is expected to be recognized over a weighted average period of 3.41 years .

NOTE 8. 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 1.9 years . The total notional amount of the derivative contracts is $50.0 million . These derivative contracts are currently between the Company and a single counterparty. To mitigate credit risk, securities are pledged to the Company by the counterparty in an amount greater than or equal to the gain position of the derivative contracts.

For the three and nine months ended September 30, 2018 , a loss of $11,000 and a gain of $0.3 million , respectively, have been recognized in “Other comprehensive income” in the accompanying consolidated statements of comprehensive income for the change in fair value of the interest rate swaps compared to gains of $37,000 and $0.1 million , respectively, recognized for the three and nine months ended September 30, 2017 . The swap contracts had a fair value of $0.9 million as of September 30, 2018 and have been recorded in “Other assets” in the accompanying consolidated balance sheet. The accumulated gain of $0.7 million included in “Accumulated other comprehensive loss” in the accompanying consolidated balance sheet would be reclassified to current earnings if the hedge transactions become probable of not occurring. The Company expects the hedges to remain fully effective during the remaining term of the swap contracts.

NOTE 9. 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 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 exchange-traded equity securities.

If quoted market prices are not available, the Company estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy if observable inputs are available, include obligations of U.S. government agencies and corporations, obligations of state and political subdivisions, corporate bonds, residential mortgage-backed securities, commercial mortgage-backed securities, and other equity securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, the Company classifies those securities in level 3.

Loans – Effective January 1, 2018, with the adoption of ASU 2016-01, the fair value of portfolio loans, net is determined using an exit price methodology. The exit price methodology continues to be based on a discounted cash flow analysis, in which projected cash flows are based on contractual cash flows adjusted for prepayments for certain loan types (e.g. residential mortgage loans and multifamily loans) and the use of a discount rate based on expected relative risk of the cash flows. The discount rate selected considers loan type, maturity date, a liquidity premium, cost to service, and cost of capital, which is a level 3 fair value estimate.

As of December 31, 2017, loans were valued as follows: 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, 1-4 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 days past due on which interest continues to accrue, are estimated using discounted cash flow analyses or underlying collateral values, where applicable. The Company classifies loans in level 3 of the fair value hierarchy.

Deposit Liabilities – The fair values disclosed for noninterest-bearing demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). These noninterest-bearing deposits are classified in level 2 of the fair value hierarchy. All interest-bearing deposits are classified in level 3 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.

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

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

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

Derivative Financial Instruments – The fair value for interest rate swap agreements is 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)
September 30, 2018				
Assets:				
Obligations of U.S. government agencies and corporations	$ 7,868	$ —	$ 7,868	$ —
Obligations of state and political subdivisions	33,961	—	15,137	18,824
Corporate bonds	15,544	—	14,222	1,322
Residential mortgage-backed securities	116,976	—	116,976	—
Commercial mortgage-backed securities	56,398	—	56,398	—
Equity securities	633	633	—	—
Derivative financial instruments	929	—	929	—
Total assets	$ 232,309	$ 633	$ 211,530	$ 20,146
December 31, 2017				
Assets:				
Obligations of U.S. government agencies and corporations	$ 8,168	$ —	$ 8,168	$ —
Obligations of state and political subdivisions	35,237	—	15,694	19,543
Corporate bonds	16,210	—	14,885	1,325
Residential mortgage-backed securities	109,478	—	109,478	—
Commercial mortgage-backed securities	47,629	—	47,629	—
Equity securities	842	842	—	—
Derivative financial instruments	516	—	516	—
Total assets	$ 218,080	$ 842	$ 196,370	$ 20,868

The Company reviews fair value hierarchy classifications on a quarterly basis. Changes in the Company's ability to observe inputs to the valuation may cause reclassification of certain assets or liabilities within the fair value hierarchy. The tables below provide a reconciliation for assets measured at fair value on a recurring basis using significant unobservable inputs, or level 3 inputs, for the nine months ended September 30, 2018 and September 30, 2017 (dollars in thousands).

	Obligations of State and Political Subdivisions	Corporate Bonds	Total
Balance at December 31, 2017	$ 19,543	$ 1,325	$ 20,868
Realized gains (losses) included in net income	—	—	—
Unrealized gains (losses) included in other comprehensive income	(719)	(3)	(722)
Purchases	—	—	—
Sales	—	—	—
Transfers into level 3	—	—	—
Transfers out of level 3	—	—	—
Balance at September 30, 2018	$ 18,824	$ 1,322	$ 20,146

	Obligations of State and Political Subdivisions	Corporate Bonds	Total
Balance at December 31, 2016	$ 17,656	$ 624	$ 18,280
Realized gains (losses) included in net income	—	—	—
Unrealized gains (losses) included in other comprehensive income	1,942	4	1,946
Purchases	—	700	700
Sales	—	—	—
Transfers into level 3	—	—	—
Transfers out of level 3	—	—	—
Balance at September 30, 2017	$ 19,598	$ 1,328	$ 20,926

There were no liabilities measured at fair value on a recurring basis using level 3 inputs at September 30, 2018 and December 31, 2017 . For the three and nine months ended September 30, 2018 and 2017 , there were no gains or losses included in earnings related to the change in fair value of the assets measured on a recurring basis using significant unobservable inputs held at the end of the period.

Fair Value of Assets and Liabilities Measured on a Nonrecurring Basis

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Quantitative information about assets measured at fair value on a nonrecurring basis based on significant unobservable inputs (level 3) is summarized below as of the dates indicated; there were no liabilities measured on a nonrecurring basis at September 30, 2018 or December 31, 2017 (dollars in thousands).

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Discounts	Weighted Average Discount
September 30, 2018					
Impaired loans	$ 373	Discounted cash flows, Underlying collateral value	Collateral discounts and estimated costs to sell	0% - 100%	15%
December 31, 2017					
Impaired loans	$ 380	Discounted cash flows, Underlying collateral value	Collateral discounts and estimated costs to sell	0% - 100%	32%
Other real estate owned	3,612	Underlying collateral value, Third party appraisals	Collateral discounts and discount rates	5%	5%

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

	September 30, 2018				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 24,503	$ 24,503	$ 24,503	$ —	$ —
Federal funds sold	285	285	285	—	—
Investment securities	247,777	247,438	—	215,871	31,567
Equity securities	12,671	12,671	633	12,038	—
Loans, net of allowance	1,349,391	1,342,314	—	—	1,342,314
Derivative financial instruments	929	929	—	929	—
Financial liabilities:					
Deposits, noninterest-bearing	$ 214,190	$ 214,190	$ —	$ 214,190	$ —
Deposits, interest-bearing	1,081,431	1,031,041	—	—	1,031,041
FHLB short-term advances and repurchase agreements	222,931	222,931	—	222,931	—
FHLB long-term advances	3,083	2,514	—	—	2,514
Junior subordinated debt	5,832	6,924	—	—	6,924
Subordinated debt	18,600	18,355	—	18,355	—

	December 31, 2017				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 30,421	$ 30,421	$ 30,421	$ —	$ —
Investment securities	235,561	235,511	842	201,946	32,723
Equity securities	9,798	9,799	—	9,799	—
Loans, net of allowance	1,250,888	1,249,844	—	—	1,249,844
Derivative financial instruments	516	516	—	516	—
Financial liabilities:					
Deposits, noninterest-bearing	$ 216,599	$ 216,599	$ —	$ 216,599	$ —
Deposits, interest-bearing	1,008,638	977,127	—	—	977,127
FHLB short-term advances and repurchase agreements	148,535	148,535	—	148,535	—
FHLB long-term advances	40,058	39,927	—	—	39,927
Junior subordinated debt	5,792	5,576	—	—	5,576
Subordinated debt	18,600	18,857	—	18,857	—

NOTE 10. INCOME TAXES

On December 22, 2017, the Tax Act was signed into law. The Tax Act makes broad and complex changes to the U.S. tax code that affected the Company’s income tax rate in 2017, including requiring the revaluation of the Company’s deferred tax assets and liabilities as of December 31, 2017 as a result of the lower corporate tax rates to be realized beginning January 1, 2018. The Tax Act reduced the U.S. federal corporate income tax rate from 35% to 21% and establishes new tax laws that affect 2018 and subsequent years.

ASC 740 requires a company to record the effects of a tax law change in the period of enactment; however, shortly after the enactment of the Tax Act, the SEC staff issued SAB 118, which allows a company to record a provisional amount when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. The measurement period ends when the company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Income tax expense	$ 516	$ 1,032	$ 2,823	$ 2,756
Effective tax rate	11.3%	32.6%	21.6%	31.8%

The Company’s current income tax expense for the three months ended September 30, 2018 includes a discrete tax benefit of $0.3 million related to return-to-provision adjustments, resulting in a decrease in the effective tax rate for the period. In addition, tax expense for the nine months ended September 30, 2018 includes a $0.6 million charge, recorded in the first quarter of 2018, directly related to the revaluation of its deferred tax assets and liabilities as a result of the Tax Act, which is the primary reason the effective tax rate differs from the statutory rate of 21% for 2018 .

NOTE 11. 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. Such financial instruments are recorded in the financial statements when they become payable. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded loan commitments is included in other liabilities in the consolidated balance sheets and was $101,000 and $32,000 at September 30, 2018 and December 31, 2017 , respectively.

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).

	September 30, 2018	December 31, 2017
Commitments to extend credit		
Loan commitments	$ 221,237	$ 174,278
Standby letters of credit	11,177	3,832

Additionally, at September 30, 2018 , the Company had unfunded commitments of $0.1 million for its investment in Small Business Investment Company qualified funds.

NOTE 12. SUBSEQUENT EVENTS

On October 10, 2018, the Company and its wholly-owned subsidiary, the Bank, entered into an Agreement and Plan of Reorganization (the "Merger Agreement") with Mainland Bank, Texas City, Texas ("Mainland Bank"). The Merger Agreement provides for the merger of Mainland Bank with and into the Bank, with the Bank as the entity surviving the merger. Following the merger, the Bank will continue as a wholly-owned subsidiary of the Company.

Under the terms of the Merger Agreement, all of the issued and outstanding shares of Mainland Bank common stock will be converted into and represent the right to receive aggregate merger consideration consisting of an aggregate of 763,849 shares of the Company's common stock, which is subject to adjustment as described below. As a result of the merger, holders of shares of Mainland Bank common stock are expected to receive 3.0389 shares of the Company's common stock for each share of Mainland Bank common stock held immediately prior to the merger. Mainland Bank shareholders will receive cash in lieu of fractional shares.

Consummation of the transactions contemplated by the Merger Agreement is subject to various customary conditions, including, without limitation (i) the approval of the shareholders of Mainland Bank, (ii) the receipt of certain regulatory approvals, (iii) the accuracy of the representations and warranties of the parties and compliance by the parties with their respective covenants and obligations under the Merger Agreement (subject to customary materiality qualifiers), and (iv) the absence of a material adverse effect with respect to Mainland Bank, the Company and the Bank.

The Merger Agreement has been approved by the boards of directors of each of the Company, the Bank and Mainland Bank, and the Merger Agreement has been executed and delivered by each of the parties. Subject to the satisfaction of all closing conditions, including the receipt of all required regulatory and shareholder approvals, the merger is expected to be completed in the first quarter of 2019 .

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

Cautionary 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,” “we,” “our,” or “us”) 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;
- our ability to integrate and achieve the anticipated cost savings from our acquisitions;
- changes (or the lack of changes) in interest rates, yield curves and interest rate spread relationships that affect our loan and deposit pricing;
- the extent of continuing client demand for the high level of personalized service that is a key element of our banking approach as well as our ability to execute our strategy generally;
- our dependence on our management team, and our ability to attract and retain qualified personnel;
- changes in the quality or composition of our loan or investment portfolios, including adverse developments in borrower industries or in the repayment ability of individual borrowers;
- inaccuracy of the assumptions and estimates we make in establishing reserves for probable loan losses and other estimates;
- the concentration of our business within our geographic areas of operation in Louisiana;
- concentration of credit exposure; and
- the satisfaction of the conditions to closing the pending acquisition of Mainland Bank and the ability to subsequently integrate it effectively.

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, 2017 , filed with the SEC.

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.

Overview

This section presents management's perspective on the consolidated financial condition and results of operations of the Company 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, 2017 , 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 SEC on March 16, 2018.

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 20 full service branches. We completed acquisitions in 2011, 2013, and 2017 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 securities. Our principal expenses are interest expense on interest-bearing customer deposits and borrowings, salaries, employee benefits, occupancy costs, data processing and 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.

Pending Acquisition

On October 10, 2018, we announced that we have entered into a definitive agreement (the "Agreement") to acquire Mainland Bank ("Mainland"), Texas City, Texas. Pursuant to the Agreement, the shareholders of Mainland will be entitled to receive an aggregate of approximately 764,000 shares of Company common stock, subject to certain adjustments. We expect the shareholders of Mainland will own approximately 7.4% of the combined company following the acquisition. The transaction, which has been unanimously approved by each company's board of directors, is expected to close in the first quarter of 2019 and is subject to customary closing conditions, including obtaining approval by Mainland's shareholders and regulatory approvals from the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Louisiana Office of Financial Institutions.

Certain Events That Affect Year-over-Year Comparability

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

Change in Tax Laws. On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act made broad and complex changes to the U.S. tax code that affected the Company's income tax rate in 2017, including requiring the revaluation of the Company's deferred tax assets and liabilities at December 31, 2017 as a result of the lower corporate tax rates to be realized beginning January 1, 2018. The Tax Act reduces the U.S. federal corporate income tax rate from 35% to 21% and establishes new tax laws that affect 2018 and beyond.

ASC 740, *Income Taxes* , requires a company to record the effects of a tax law change in the period of enactment; however, shortly after the enactment of the Tax Act, the SEC staff issued Staff Accounting Bulletin ("SAB") 118, which allows a company to record a provisional amount when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. The measurement period ends when the company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. The Company recorded a revaluation of its deferred tax assets and liabilities based on the information available to management at the time, resulting in a $0.3 million charge to income tax expense in the year ended December 31, 2017 and a $0.6 million charge to income tax in the first quarter of 2018.

Acquisitions. On July 1, 2017, the Company completed the acquisition of Citizens Bancshares, Inc. ("Citizens") and its wholly-owned subsidiary, Citizens Bank, located in Evangeline Parish, Louisiana. The Company acquired 100% of Citizens' outstanding common shares for an aggregate amount of cash consideration equal to $45.8 million, or approximately $419.20 per share. The acquisition of Citizens expands the Company's branch footprint in Louisiana and increases the core deposit base to help position the Company to continue to grow. On the date of acquisition, Citizens had total assets with a fair value of $251 million, $129 million in loans, $212 million in deposits, and $36 million in stockholders' equity, and served the residents of Evangeline Parish through its three branch locations. The Company recorded a core deposit intangible and goodwill of $1.5 million and $9.1 million, respectively, related to the acquisition of Citizens.

On December 1, 2017, the Company completed the acquisition of BOJ Bancshares, Inc. ("BOJ") and its wholly-owned subsidiary, The Highlands Bank, located in East Feliciana Parish, Louisiana. The Company acquired 100% of BOJ's outstanding common shares for an aggregate merger consideration consisting of $3.95 million in cash, and an aggregate of 799,559 shares of the Company's common stock. Like Citizens, the acquisition of BOJ expands the Company's branch footprint in Louisiana, allowing us to serve more customers in our surrounding market areas. On the date of acquisition, BOJ had total assets with a fair value of $152 million, $102 million in loans, $126 million in deposits, and $16 million in stockholders' equity, and served the residents of East Baton Rouge and East and West Feliciana Parishes through its five branch locations. The Company recorded a core deposit intangible and goodwill of $1.0 million and $5.7 million, respectively, related to the acquisition of BOJ.

Discussion and Analysis of Financial Condition

For the nine months ended September 30, 2018 , net income was $10.3 million , or $1.06 per basic share and $1.05 per diluted share, compared to net income of $5.9 million , or $0.72 per basic share and $0.71 per diluted share, for the nine months ended September 30, 2017 . For the nine months ended September 30, 2018 , our net interest margin was 3.64% , return on average assets was 0.83%, and return on average equity was 7.80%. From December 31, 2017 to September 30, 2018 , total loans increased $99.6 million , or 7.9% , and total deposits increased $70.4 million , or 5.7% . At September 30, 2018 , the Company and Bank each were in compliance with all regulatory capital requirements, and the Bank was considered "well-capitalized" under the FDIC's prompt corrective action regulations.

Loans

General . Loans constitute our most significant asset, comprising 78.3% and 77.6% of our total assets at September 30, 2018 and December 31, 2017 , respectively. Total loans increased $99.6 million , or 7.9% , to $1.36 billion at September 30, 2018 compared to $1.26 billion at December 31, 2017 as a result of organic growth in our business.

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

	September 30, 2018		December 31, 2017	
	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans
Construction and development	$ 160,921	11.9%	$ 157,667	12.5%
1-4 Family	286,976	21.1	276,922	22.0
Multifamily	50,770	3.7	51,283	4.1
Farmland	20,902	1.5	23,838	1.9
Commercial real estate				
Owner-occupied	291,168	21.4	272,433	21.6
Nonowner-occupied	301,828	22.2	264,931	21.0
Total mortgage loans on real estate	1,112,565	81.8	1,047,074	83.1
Commercial and industrial	193,563	14.3	135,392	10.8
Consumer	52,284	3.9	76,313	6.1
Total loans	$ 1,358,412	100.0%	$ 1,258,779	100.0%

At September 30, 2018 , the Company's business lending portfolio, which consists of loans secured by owner-occupied commercial real estate properties and commercial and industrial loans, was $484.7 million , an increase of $76.9 million, or 18.9%, compared to $407.8 million at December 31, 2017 . The increase in the business lending portfolio is mainly attributable to the growth in commercial and industrial loans resulting from increased production from the addition of our new Commercial and Industrial Division in January 2018, which includes five new lenders and related support staff.

Consumer loans totaled $52.3 million at September 30, 2018 , a decrease of $24.0 million, or 31.5%, compared to $76.3 million at December 31, 2017 . The decrease in consumer loans is attributable to the scheduled paydowns of the consumer loans, most of which relate to our former indirect auto loan business.

The following table sets forth loans outstanding at September 30, 2018 , 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	$ 130,536	$ 14,946	$ 12,403	$ 2,846	$ 190	$ 160,921
1-4 Family	46,787	93,750	37,589	29,507	79,343	286,976
Multifamily	5,808	25,648	17,708	111	1,495	50,770
Farmland	5,825	11,098	2,025	1,839	115	20,902
Commercial real estate						
Owner-occupied	34,807	129,624	79,413	37,931	9,393	291,168
Nonowner-occupied	35,295	134,173	108,638	23,722	—	301,828
Total mortgage loans on real estate	259,058	409,239	257,776	95,956	90,536	1,112,565
Commercial and industrial	100,231	58,474	19,735	6,373	8,750	193,563
Consumer	4,622	42,906	4,249	143	364	52,284
Total loans	$ 363,911	$ 510,619	$ 281,760	$ 102,472	$ 99,650	$ 1,358,412

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 September 30, 2018 and December 31, 2017 , we had no concentrations of loans exceeding 10% of total loans other than loans in the categories listed in the table above.

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 14.3% of our total assets and totaled $247.8 million at September 30, 2018 , an increase of $12.2 million , or 5.2% , from $235.6 million at December 31, 2017 . The increase in investment securities at September 30, 2018 compared to December 31, 2017 primarily resulted from purchases of residential and commercial mortgage-backed securities.

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

	September 30, 2018		December 31, 2017	
	Balance	Percentage of Portfolio	Balance	Percentage of Portfolio
Obligations of U.S. government agencies and corporations	$ 7,868	3.2%	$ 8,168	3.5%
Obligations of state and political subdivisions	45,492	18.3	47,098	20.0
Corporate bonds	15,544	6.3	16,210	6.9
Residential mortgage-backed securities	122,475	49.4	115,614	49.0
Commercial mortgage-backed securities	56,398	22.8	47,629	20.2
Equity securities	—	—	842	0.4
Total	$ 247,777	100.0%	$ 235,561	100.0%

The investment portfolio consists of AFS and HTM securities. We classify debt securities as HTM if management has the positive intent and ability to hold the securities to maturity. HTM debt securities are stated at amortized cost. Securities not classified as HTM are classified as AFS. The carrying values of the Company's AFS 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.

Effective January 1, 2018, per the requirements of ASU 2016-01, the carrying values of the Company's equity securities historically included in the AFS securities portfolio are included in equity securities on the consolidated balance sheet and are adjusted for unrealized gains or losses with any changes being recognized in net income in the consolidated statement of income.

The table below sets forth the stated maturities and weighted average yields of our investment debt securities based on the amortized cost of our investment portfolio at September 30, 2018 (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 state and political subdivisions	$ 720	5.88%	$ 3,245	5.88%	$ 1,875	5.88%	$ 5,691	3.59%
Residential mortgage-backed securities	—	—	—	—	—	—	5,499	2.87
Available for sale:								
Obligations of U.S. government agencies and corporations	—	—	2,279	1.95	5,327	2.62	492	3.23
Obligations of state and political subdivisions	3,753	1.61	5,721	2.13	6,260	2.63	19,326	3.60
Corporate bonds	352	2.20	350	3.32	15,320	3.92	—	—
Residential mortgage-backed securities	—	—	—	—	4,407	2.39	116,371	2.38
Commercial mortgage-backed securities	—	—	2,142	2.33	2,453	2.69	53,890	2.65
	$ 4,825		$ 13,737		$ 35,642		$ 201,269	

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 21%.

Deposits

The following table sets forth the composition of our deposits and the percentage of each deposit type to total deposits at September 30, 2018 and December 31, 2017 (dollars in thousands).

	September 30, 2018		December 31, 2017	
	Amount	Percentage of Total Deposits	Amount	Percentage of Total Deposits
Noninterest-bearing demand deposits	$ 214,190	16.5%	$ 216,599	17.7%
NOW accounts	245,569	19.0	208,683	17.0
Money market deposit accounts	179,071	13.8	146,140	11.9
Savings accounts	112,078	8.7	117,372	9.6
Time deposits	544,713	42.0	536,443	43.8
Total deposits	$ 1,295,621	100.0%	$ 1,225,237	100.0%

Total deposits were $1.3 billion at September 30, 2018 , an increase of $70.4 million , or 5.7% , compared to December 31, 2017 as a result of organic loan growth.

The following table shows the contractual maturities of certificates of deposit and other time deposits greater than $100,000 at September 30, 2018 and December 31, 2017 (dollars in thousands).

	September 30, 2018		December 31, 2017	
	Certificates of Deposit	Other Time Deposits	Certificates of Deposit	Other Time Deposits
Time remaining until maturity:				
Three months or less	$ 42,739	$ 1,190	$ 79,662	$ 2,182
Over three months through six months	56,070	1,505	53,702	1,709
Over six months through twelve months	98,393	1,008	61,371	1,812
Over one year through three years	78,627	4,414	78,270	1,890
Over three years	9,433	866	2,722	487
	$ 285,262	$ 8,983	$ 275,727	$ 8,080

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 assumed through acquisitions. In addition, in connection with its definitive agreement to acquire Citizens, on March 24, 2017 , the Company issued and sold $18.6 million in aggregate principal amount of its 6.00% Fixed-to-Floating Rate Subordinated Notes ("Notes") due March 30, 2027 . Beginning on March 30, 2022 , the Company may redeem the Notes, in whole or in part, at their principal amount plus any accrued and unpaid interest. The Notes bear an interest rate of 6.00% per annum until March 30, 2022 , on which date the interest rate will reset quarterly to an annual interest rate equal to the then-current LIBOR plus 394.5 basis points. The Company used the net proceeds of the Notes sale to fund a portion of its acquisition of Citizens, which closed on July 1, 2017. The carrying value of the Notes was $18.2 million at September 30, 2018 and December 31, 2017 .

Securities sold under agreements to repurchase decreased $4.0 million to $17.9 million at September 30, 2018 from $21.9 million at December 31, 2017 . Our advances from the FHLB were $208.1 million at September 30, 2018 , an increase of $41.4 million , or 24.9% , from FHLB advances of $166.7 million at December 31, 2017 . The increase in FHLB advances was used primarily to fund loan growth and investment activity.

We had no outstanding balances drawn on unsecured lines of credit at September 30, 2018 or December 31, 2017 . The $5.8 million in junior subordinated debt at September 30, 2018 and December 31, 2017 represents the junior subordinated debentures that we assumed through acquisition.

The average balances and cost of funds of short-term borrowings for the nine months ended September 30, 2018 and 2017 are summarized in the table below (dollars in thousands).

	Average Balances		Cost of Funds	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Federal funds purchased and other short-term borrowings	$ 127,415	$ 91,914	1.76%	1.34%
Securities sold under agreements to repurchase	19,915	35,167	0.90	0.30
Total short-term borrowings	$ 147,330	$ 127,081	1.64%	1.05%

The main source of our short-term borrowings are advances from the FHLB. The rate charged for these advances is directly tied to the Federal Reserve Bank's federal funds rate. The Federal Reserve increased the target range for the federal funds rate by 25 basis points in December 2016 and by a total of 75 basis points during both 2017 and the first nine months of 2018. The Federal Reserve has indicated the potential for further gradual increases in the target rate depending on the economic outlook. As the federal funds rate increases, market interest rates will likely rise, which will increase the cost of our borrowings.

Results of Operations

Performance Summary

Three months ended September 30, 2018 vs. three months ended September 30, 2017 . For the three months ended September 30, 2018 , net income was $4.0 million , or $0.42 per basic common share and $0.41 per diluted common share, compared to net income of $2.1 million , or $0.24 per basic and diluted common share, for the three months ended September 30, 2017 . Return on average assets increased to 0.94% for the three months ended September 30, 2018 compared to 0.59% for the three months ended September 30, 2017 . Return on average equity was 8.98% for the three months ended September 30, 2018 compared to 5.55% for the three months ended September 30, 2017 . The increase in basic and diluted earnings per common share, return on average assets, and return on average equity is primarily attributable to the 89.9% increase in earnings for the three months ended September 30, 2018 .

Nine months ended September 30, 2018 vs. nine months ended September 30, 2017 . For the nine months ended September 30, 2018 , net income was $10.3 million , or $1.06 per basic common share and $1.05 per diluted common share, compared to net income of $5.9 million , or $0.72 per basic common share and $0.71 per diluted common share, for the nine months ended September 30, 2017 . Return on average assets increased to 0.83% for the nine months ended September 30, 2018 compared to 0.62% for the nine months ended September 30, 2017 . Return on average equity was 7.80% for the nine months ended September 30, 2018 compared to 5.65% for the nine months ended September 30, 2017 .

Net Interest Income

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

Three months ended September 30, 2018 vs. three months ended September 30, 2017 . Net interest income increased 24.7% to $14.4 million for the three months ended September 30, 2018 compared to $11.5 million for the same period in 2017 . This increase is due primarily to the $237.4 million and $26.3 million increases in average loans and average investment securities, respectively, compared to the same period in 2017 , resulting in a $4.3 million increase in interest income, discussed in more detail below. Average interest-bearing deposits increased $118.3 million and average short- and long-term borrowings increased $81.8 million for the three months ended September 30, 2018 compared to the same period in 2017 , resulting in a $1.5 million increase in interest expense, also discussed in more detail below. The increases in both average interest-earning assets and interest-bearing liabilities are results of both organic growth of the Company and the acquisition of BOJ in December 2017.

Interest income was $18.8 million for the three months ended September 30, 2018 compared to $14.4 million for the same period in 2017 . Loan interest income made up substantially all of our interest income for the three months ended September 30, 2018 and 2017 . An increase in interest income of $3.0 million can be attributed to an increase in the volume of interest-earning assets and an increase of $1.4 million can be attributed to an increase in the yield earned on those assets. The overall yield on interest-earning assets was 4.65% and 4.26% for the three months ended September 30, 2018 and 2017 , respectively. The loan portfolio yielded 5.12% for the three months ended September 30, 2018 compared to 4.76% for the three months ended September 30, 2017 , while the yield on the investment portfolio was 2.57% for the three months ended September 30, 2018 compared to 2.33% for the three months ended September 30, 2017 .

Interest expense was $4.4 million for the three months ended September 30, 2018 , an increase of $1.5 million compared to interest expense of $2.9 million for the three months ended September 30, 2017 , as a result of an increase of $0.7 million due to the volume of interest-bearing liabilities and $0.8 million due to the cost of those liabilities. Average interest-bearing liabilities increased approximately $200.1 million for the three months ended September 30, 2018 compared to the same period in 2017 . Average interest-bearing deposits increased $118.3 million and short- and long-term borrowings increased $81.8 million , attributable to our liquidity needs. The cost of deposits increased 23 basis points to 1.14% for the quarter ended September 30, 2018 compared to 0.91% for the quarter ended September 30, 2017 as a result of the increase in the rates offered for our interest-bearing demand accounts and time deposits. The cost of interest-bearing liabilities increased 29 basis points to 1.34 % for the three months ended September 30, 2018 compared to 1.05 % for the same period in 2017 , due to the increase in the cost of deposits, as well as the increased cost of short-term borrowings, or 64 basis points, which is primarily driven by the Federal Reserve Bank's federal funds rate.

Net interest margin was 3.56% for the three months ended September 30, 2018 , an increase of 16 basis points from 3.40% for the three months ended September 30, 2017 . The increase in net interest margin was primarily driven by an increase in interest-earning assets and the yields earned on those assets.

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 September 30, 2018 and 2017 . Averages presented in the table below are daily averages (dollars in thousands).

	Three months ended September 30,					
	2018			2017		
	Average Balance	Interest Income/ Expense (1)	Yield/ Rate (1)	Average Balance	Interest Income/ Expense (1)	Yield/ Rate (1)
Assets						
Interest-earning assets:						
Loans	$ 1,311,158	$ 16,905	5.12%	$ 1,073,800	$ 12,893	4.76%
Securities:						
Taxable	230,299	1,506	2.60	203,407	1,193	2.33
Tax-exempt	34,108	204	2.37	34,659	206	2.36
Interest-earning balances with banks	28,146	162	2.29	34,589	150	1.72
Total interest-earning assets	1,603,711	18,777	4.65	1,346,455	14,442	4.26
Cash and due from banks	16,938			22,626		
Intangible assets	19,926			13,283		
Other assets	73,722			63,007		
Allowance for loan losses	(8,564)			(7,442)		
Total assets	$ 1,705,733			$ 1,437,929		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	$ 394,545	$ 823	0.83%	$ 337,846	$ 604	0.71%
Savings deposits	117,795	140	0.47	102,331	139	0.54
Time deposits	532,986	2,031	1.51	486,837	1,394	1.14
Total interest-bearing deposits	1,045,326	2,994	1.14	927,014	2,137	0.91
Short-term borrowings	157,595	727	1.83	122,456	367	1.19
Long-term debt	98,327	671	2.71	51,642	400	3.07
Total interest-bearing liabilities	1,301,248	4,392	1.34	1,101,112	2,904	1.05
Noninterest-bearing deposits	215,587			173,212		
Other liabilities	10,163			11,419		
Stockholders' equity	178,735			152,186		
Total liabilities and stockholders' equity	$ 1,705,733			$ 1,437,929		
Net interest income/net interest margin		$ 14,385	3.56%		$ 11,538	3.40%

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

Volume/Rate Analysis . The following table sets forth a summary of the changes in interest earned and interest paid resulting from changes in volume and rates for the three months ended September 30, 2018 compared to the same period in 2017 (dollars in thousands).

	Three months ended September 30, 2018 vs. three months ended September 30, 2017		
	Volume	Rate	Net [1]
Interest income:			
Loans	$ 2,850	$ 1,162	$ 4,012
Securities:			
Taxable	158	155	313
Tax-exempt	(3)	1	(2)
Interest-earning balances with banks	(28)	40	12
Total interest-earning assets	2,977	1,358	4,335
Interest expense:			
Interest-bearing demand deposits	101	118	219
Savings deposits	21	(20)	1
Time deposits	132	505	637
Short-term borrowings	105	255	360
Long-term debt	361	(90)	271
Total interest-bearing liabilities	720	768	1,488
Change in net interest income	$ 2,257	$ 590	$ 2,847

(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.

Nine months ended September 30, 2018 vs. nine months ended September 30, 2017 . Net interest income increased 43.3% to $42.6 million for the nine months ended September 30, 2018 compared to $29.7 million for the same period in 2017 . This increase is due primarily to the $320.0 million and $49.9 million increases in average loans and average investment securities, respectively, compared to the same period in 2017 , resulting in a $16.6 million increase in interest income, discussed in more detail below. Average interest-bearing deposits increased approximately $199.0 million and average short- and long-term borrowings increased $78.5 million for the nine months ended September 30, 2018 compared to the same period in 2017 , resulting in a $3.7 million increase in interest expense, also discussed in more detail below. The increases in both average interest-earning assets and interest-bearing liabilities are results of both organic growth of the Company and the acquisition of Citizens in July 2017 and BOJ in December 2017.

Interest income was $54.0 million for the nine months ended September 30, 2018 compared to $37.4 million for the same period in 2017 . Loan interest income made up substantially all of our interest income for the nine months ended September 30, 2018 and 2017 . An increase in interest income of $12.0 million can be attributed to an increase in the volume of interest-earning assets and an increase of $4.6 million can be attributed to an increase in the yield earned on those assets. The overall yield on interest-earning assets was 4.62% and 4.18% for the nine months ended September 30, 2018 and 2017 , respectively. The loan portfolio yielded 5.09% for the nine months ended September 30, 2018 compared to 4.66% for the nine months ended September 30, 2017 , while the yield on the investment portfolio was 2.53% for the nine months ended September 30, 2018 compared to 2.37% for the nine months ended September 30, 2017 .

Interest expense was $11.4 million for the nine months ended September 30, 2018 , an increase of $3.7 million compared to interest expense of $7.7 million for the nine months ended September 30, 2017 , as a result of an increase of $2.8 million attributed to the volume and $0.9 million attributed to the increase in the cost of interest-bearing liabilities. Average interest-bearing liabilities increased approximately $277.5 million for the nine months ended September 30, 2018 compared to the same period in 2017 mainly as a result of a $199.0 million increase in interest-bearing deposits. Average short- and long-term borrowings also increased $78.5 million , attributable to our liquidity needs. The cost of deposits increased six basis points to 1.01% for the year ended September 30, 2018 compared to 0.95% for the year ended September 30, 2017 as a result of the increase in the rates offered for our interest-bearing demand accounts and time deposits. The cost of interest-bearing liabilities increased 16 basis points to 1.21 % for the nine months ended September 30, 2018 compared to 1.05 % for the same period in 2017 , due to the increase in the cost of deposits, as well as the increased cost of short-term borrowings, or 59 basis points, which is primarily driven by the Federal Reserve Bank's federal funds rate.

Net interest margin was 3.64% for the nine months ended September 30, 2018 , an increase of 32 basis points from 3.32% for the nine months ended September 30, 2017 . The increase in net interest margin was primarily driven by an increase in interest-earning assets and the yields earned on those assets.

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 nine months ended September 30, 2018 and 2017 . Averages presented in the table below are daily averages (dollars in thousands).

	Nine months ended September 30,					
	2018			2017		
	Average Balance	Interest Income/ Expense [(1)]	Yield/ Rate [(1)]	Average Balance	Interest Income/ Expense [(1)]	Yield/ Rate [(1)]
Assets						
Interest-earning assets:						
Loans	$ 1,280,883	$ 48,754	5.09%	$ 960,868	$ 33,456	4.66%
Securities:						
Taxable	220,514	4,200	2.55	173,273	3,044	2.35
Tax-exempt	34,243	613	2.39	31,540	583	2.47
Interest-earning balances with banks	26,138	397	2.03	29,238	296	1.35
Total interest-earning assets	1,561,778	53,964	4.62	1,194,919	37,379	4.18
Cash and due from banks	16,871			13,180		
Intangible assets	19,958			6,612		
Other assets	73,491			58,401		
Allowance for loan losses	(8,245)			(7,265)		
Total assets	$ 1,663,853			$ 1,265,847		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	$ 376,214	$ 2,044	0.73%	$ 307,369	$ 1,616	0.70%
Savings deposits	119,932	416	0.46	69,194	308	0.60
Time deposits	520,349	5,213	1.34	440,956	3,893	1.18
Total interest-bearing deposits	1,016,495	7,673	1.01	817,519	5,817	0.95
Short-term borrowings	147,330	1,813	1.64	127,081	1,000	1.05
Long-term debt	95,735	1,915	2.68	37,479	862	3.08
Total interest-bearing liabilities	1,259,560	11,401	1.21	982,079	7,679	1.05
Noninterest-bearing deposits	218,268			133,675		
Other liabilities	10,005			10,166		
Stockholders' equity	176,020			139,927		
Total liabilities and stockholders' equity	$ 1,663,853			$ 1,265,847		
Net interest income/net interest margin		$ 42,563	3.64%		$ 29,700	3.32%

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

Volume/Rate Analysis . The following table sets forth a summary of the changes in interest earned and interest paid resulting from changes in volume and rates for the nine months ended September 30, 2018 compared to the same period in 2017 (dollars in thousands).

	Nine months ended September 30, 2018 vs. nine months ended September 30, 2017		
	Volume	**Rate**	**Net** [(1)]
Interest income:			
Loans	$ 11,142	$ 4,156	$ 15,298
Securities:			
Taxable	830	326	1,156
Tax-exempt	50	(20)	30
Interest-earning balances with banks	(31)	132	101
Total interest-earning assets	11,991	4,594	16,585
Interest expense:			
Interest-bearing demand deposits	362	66	428
Savings deposits	226	(118)	108
Time deposits	700	620	1,320
Short-term borrowings	159	654	813
Long-term debt	1,340	(287)	1,053
Total interest-bearing liabilities	2,787	935	3,722
Change in net interest income	$ 9,204	$ 3,659	$ 12,863

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

Noninterest Income

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

Three months ended September 30, 2018 vs. three months ended September 30, 2017 . Total noninterest income increased $50,000, or 4.3% , to $1.2 million for the three months ended September 30, 2018 compared to $1.2 million for the three months ended September 30, 2017 . The increase in noninterest income is mainly attributable to the $0.3 million and $0.1 million increases in other operating income and service charges on deposit accounts, respectively, partially offset by decreases in servicing fees and fee income on serviced loans and gain on sale of fixed assets. The increase in the service charges on deposit accounts is attributable to the increase in deposit accounts, both from organic growth and the BOJ acquisition in December 2017. Other operating income includes, among other things, interchange fees, various operations fees, and income recognized on certain equity method investments.

Servicing fees and fee income on serviced loans, which are fees collected for servicing loans which have been sold and are held in our servicing portfolio, decreased $120,000, or 34.1% , to $0.2 million for the three months ended September 30, 2018 compared to $0.4 million for the same period in 2017 . The Bank's servicing portfolio primarily consists of indirect auto loans. As this portfolio of loans ages, and consequently decreases in principal value, the servicing fees and fee income on serviced loans earned will continue to decrease.

Nine months ended September 30, 2018 vs. nine months ended September 30, 2017 . Total noninterest income increased $0.6 million, or 22.0% , to $3.5 million for the nine months ended September 30, 2018 compared to $2.9 million for the nine months ended September 30, 2017 . The increase in noninterest income is mainly attributable to the $0.6 million and $0.6 million increases in service charges on deposit accounts and other operating income, respectively, partially offset by a $0.2 million and $0.4 million decrease in gain on sale of investment securities and servicing fees and fee income on serviced loans, respectively. The increase in the service charges on deposit accounts is attributable to the increase in deposit accounts from both organic growth and the Citizens and BOJ acquisitions in July 2017 and December 2017, respectively.

Servicing fees and fee income on serviced loans, which are fees collected for servicing loans which have been sold and are held in our servicing portfolio, decreased $0.4 million, or 33.0% , to $0.8 million for the nine months ended September 30, 2018 compared to $1.2 million for the same period in 2017 . The Bank's servicing portfolio primarily consists of indirect auto loans. As this portfolio of loans ages, and consequently decreases in principal value, the servicing fees and fee income on serviced loans earned will continue to decrease.

Noninterest Expense

Three months ended September 30, 2018 vs. three months ended September 30, 2017 . Total noninterest expense was $10.3 million for the three months ended September 30, 2018 , an increase of $1.1 million , or 12.4% , compared to the same period in 2017 . The increase is mainly attributable to a $1.5 million increase in salaries and employee benefits and a $0.3 million increase in other operating expenses. The increase in salaries and employee benefits is mainly attributable to the additional employees acquired in the BOJ acquisition, as well as additional lenders and related support staff hired in 2018. Noninterest expense for the quarter ended September 30, 2018 includes $0.3 million of severance expense recognized as part of a staffing optimization plan focused on the operations of our recent acquisitions. Other operating expenses include, among other things, office supplies, telephone expense, FDIC assessments and bank shares tax, increases in which resulted from growth through acquisition. These increases were partially offset by a $0.8 million decrease in acquisition expenses. Full-time equivalent employees increased by 26, or 11% at September 30, 2018 compared to September 30, 2017.

Nine months ended September 30, 2018 vs. nine months ended September 30, 2017 . Total noninterest expense was $31.0 million for the nine months ended September 30, 2018 , an increase of $8.2 million , or 36.3% , compared to the same period in 2017 . The increase is mainly attributable to a $6.0 million increase in salaries and employee benefits and a $1.1 million increase in other operating expenses. The increase in salaries and employee benefits compared to the nine months ended September 30, 2017 is mainly attributable to the additional employees acquired in the Citizens and BOJ acquisitions, as well as additional lenders and related support staff hired in 2018. Other operating expenses include, among other things, office supplies, telephone expense, FDIC assessments and bank shares tax, increases in which resulted from growth through acquisition.

Income Tax Expense

Income tax expense for the three months ended September 30, 2018 was $0.5 million , a decrease of $0.5 million, compared to the three months ended September 30, 2017 . The effective tax rate for the three months ended September 30, 2018 and 2017 was 11.3% and 32.6% , respectively. The decrease in the effective tax rate is mainly a result of the Tax Act. In addition, the Company recorded a discrete tax benefit of $0.3 million during the quarter ended September 30, 2018 related to return-to-provision adjustments.

Income tax expense for the nine months ended September 30, 2018 was $2.8 million , an increase of $67,000, compared to the nine months ended September 30, 2017 . The effective tax rate for the nine months ended September 30, 2018 and 2017 was 21.6% and 31.8% , respectively. Income tax expense for the nine months ended September 30, 2018 includes a charge of $0.6 million as a result of the revaluation of the Company's deferred tax assets and liabilities required following the enactment of the Tax Act, as well as the $0.3 million discrete tax benefit discussed above. Management expects the Company's effective tax rate to approximate 20% for the remainder of 2018, mainly as a result of the Tax Act.

Risk Management

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

Credit Risk and the Allowance for Loan Losses

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

- *Pass (grades 1-6)* – Loans not falling into one of the categories below are considered pass. These loans have high credit characteristics and financial strength. The borrowers at least generate profits and cash flow that are in line with peer and industry standards and have debt service coverage ratios above loan covenants and our policy guidelines. For some of these loans, a guaranty from a financially capable party mitigates characteristics of the borrower that might otherwise result in a lower grade.

- *Special Mention (grade 7)* – Loans classified as special mention possess some credit deficiencies that need to be corrected to avoid a greater risk of default in the future. For example, financial ratios relating to the borrower may have deteriorated. Often, a special mention categorization is temporary while certain factors are analyzed or matters addressed before the loan is re-categorized as either pass or substandard.

- *Substandard (grade 8)* – Loans rated as substandard are inadequately protected by the current net worth and paying capacity of the borrower or the liquidation value of any collateral. If deficiencies are not addressed, it is likely that this category of loan will result in the Bank incurring a loss. Where a borrower has been unable to adjust to industry or general economic conditions, the borrower's loan is often categorized as substandard.

- *Doubtful (grade 9)* – Doubtful loans are substandard loans with one or more additional negative factors that makes full collection of amounts outstanding, either through repayment or liquidation of collateral, highly questionable and improbable.

- *Loss (grade 10)* – Loans classified as loss have deteriorated to such a point that it is not practicable to defer writing off the loan. For these loans, all efforts to remediate the loan's negative characteristics have failed and the value of the collateral, if any, has severely deteriorated relative to the amount outstanding. Although some value may be recovered on such a loan, it is not significant in relation to the amount borrowed.

At September 30, 2018 and December 31, 2017 , there were no loans classified as loss. At September 30, 2018 , there was one $30,000 loan classified as doubtful compared to no doubtful loans at December 31, 2017 . At September 30, 2018 and December 31, 2017 , there were $10.0 million and $5.7 million , respectively, of loans classified as substandard, and $0.3 million and $3.1 million , respectively, of loans classified as special mention. The increase in substandard loans when compared to December 31, 2017 is primarily due to loans acquired in 2017, $3.0 million of which were purchased with deteriorated credit quality.

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

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

Allowance for Loan Losses . The allowance for loan losses is an amount that management believes will be adequate to absorb probable losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on an ongoing analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment as recognized under ASC 450, *Contingencies* . Collective impairment is calculated based on loans grouped by type. Another component of the allowance is losses on loans assessed as impaired under ASC 310, *Receivables* . The balance of these loans and their related allowance is included in management's estimation and analysis of the allowance for loan losses. Other considerations in establishing the allowance for loan losses include the nature and volume of the loan portfolio, overall portfolio quality, historical loan loss, review of specific problem loans and current economic conditions that may affect our borrowers' ability to pay, as well as trends within each of these factors. The allowance for loan losses is established after input from management as well as our risk management department and our special assets committee. We evaluate the adequacy of the allowance for loan losses on a quarterly basis. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses was $9.0 million at September 30, 2018 , an increase from $7.9 million at December 31, 2017 , as we increased our loan loss provisioning to reflect our organic loan growth.

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

Impaired loans at September 30, 2018 , which include TDRs and nonaccrual loans individually evaluated for impairment for purposes of determining the allowance for loan losses, were $3.8 million compared to $3.0 million at December 31, 2017 . At September 30, 2018 and December 31, 2017 , $0.2 million 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 September 30, 2018 and 2017 , the provision for loan losses was $0.8 million and $0.4 million , respectively. For the nine months ended September 30, 2018 and 2017 , the provision for loan losses was $2.0 million and $1.1 million , respectively. The increase in the provision primarily reflects the increase in organic loan growth.

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).

	September 30, 2018	December 31, 2017
Construction and development	$ 1,019	$ 945
1-4 Family	1,410	1,287
Multifamily	333	332
Farmland	74	60
Commercial real estate	3,930	3,599
Total mortgage loans on real estate	6,766	6,223
Commercial and industrial	1,485	693
Consumer	770	975
Total	$ 9,021	$ 7,891

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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Allowance at beginning of period	$ 8,451	$ 7,320	$ 7,891	$ 7,051
Provision for loan losses	785	420	1,977	1,145
Charge-offs:				
Mortgage loans on real estate:				
Construction and development	(8)	—	(24)	—
1-4 Family	(44)	—	(79)	—
Commercial and industrial	(30)	(77)	(481)	(270)
Consumer	(182)	(78)	(417)	(365)
Total charge-offs	(264)	(155)	(1,001)	(635)
Recoveries				
Mortgage loans on real estate:				
Construction and development	2	14	10	28
1-4 Family	14	2	20	4
Commercial and industrial	13	—	54	—
Consumer	20	4	70	12
Total recoveries	49	20	154	44
Net charge-offs	(215)	(135)	(847)	(591)
Balance at end of period	$ 9,021	$ 7,605	$ 9,021	$ 7,605
Net charge-offs to:				
Loans - average	0.02%	0.01%	0.07%	0.06%
Allowance for loan losses	2.38%	1.78%	9.39%	7.77%
Allowance for loan losses to:				
Total loans	0.66%	0.68%	0.66%	0.68%
Nonperforming loans	142.16%	349.64%	142.16%	349.64%

The allowance for loan losses to total loans ratio decreased to 0.66% at September 30, 2018 compared to 0.68% at September 30, 2017 . The allowance for loan losses to nonperforming loans ratio decreased to 142.16% at September 30, 2018 compared to 349.64% at September 30, 2017 . The decrease in the allowance for loan losses to total loans and nonperforming loans ratios is primarily attributable to the loans acquired in 2017. As a result of the acquisitions of Citizens and BOJ, the Company is holding acquired loans that are carried net of a fair value adjustment for credit and interest marks and are only included in the allowance calculation to the extent that the reserve requirement exceeds the remaining fair value adjustment. Acquired loan balances are included in total loans and nonperforming loans, but had no additional reserve requirements at September 30, 2018 .

The decrease in the allowance for loan losses to nonperforming loans ratio at September 30, 2018 is due to a $4.2 million increase in nonperforming loans compared to September 30, 2017 . The increase in nonperforming loans compared to September 30, 2017 is mainly attributable to $3.5 million of nonperforming loans that were acquired in 2017.

Charge-offs reflect the realization of losses in the portfolio that were recognized previously through the provision for loan losses. Net charge-offs, which include recoveries of amounts previously charged off, for the three and nine months ended September 30, 2018 were $0.2 million and $0.8 million , respectively, equal to 0.02% and 0.07% , respectively, of the average loan balance for the period. Net charge-offs for the three and nine months ended September 30, 2017 were $0.1 million and $0.6 million , respectively, equal to 0.01% and 0.06% , respectively, of the average loan balance for the period.

Management believes the allowance for loan losses at September 30, 2018 is sufficient to provide adequate protection against losses in our portfolio. Although the allowance for loan losses is considered adequate by management, there can be no assurance that this allowance will prove to be adequate over time to cover ultimate losses in connection with our loans. This allowance may prove to be inadequate due to unanticipated adverse changes in the economy or discrete events adversely affecting specific customers or industries. Our results of operations and financial condition could be materially adversely affected to the extent that the allowance is insufficient to cover such changes or events.

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

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

There were 23 loans classified as TDRs at September 30, 2018 that totaled approximately $2.0 million , compared to 18 loans totaling $1.6 million at December 31, 2017. At September 30, 2018 , 15 restructured loans were considered TDRs due to a modification of terms through adjustments to maturity, seven restructured loans were considered TDRs due to a reduction in the interest rate to a rate lower than the current market rate, and one restructured loan was considered a TDR due to forgiveness of interest due on the loan. As of September 30, 2018 three of the TDRs were in default of their modified terms and are included in nonaccrual loans. As of December 31, 2017 , all restructured loans were performing under their modified terms. The Company individually evaluates each TDR for allowance purposes, primarily based on collateral value, and excludes these loans from the loan population that is collectively evaluated for impairment.

The following table shows the principal amounts of nonperforming and restructured loans as of the dates indicated. All loans for which 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).

	September 30, 2018	December 31, 2017
Nonaccrual loans	$ 6,278	$ 3,547
Accruing loans past due 90 days or more	67	134
Total nonperforming loans	6,345	3,681
TDRs	1,141	1,621
Total nonperforming and TDRs	$ 7,486	$ 5,302
Interest income recognized on nonperforming and TDRs	$ 129	$ 185
Interest income foregone on nonperforming and TDRs	$ 273	$ 104

Nonperforming loans are comprised of accruing loans past due 90 days or more and nonaccrual loans. Nonperforming loans outstanding represented 0.47% and 0.29% of total loans at September 30, 2018 and December 31, 2017 , respectively.

Other Real Estate Owned. Other real estate owned consists of properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure. These properties are carried at the lower of cost or fair market value based on appraised value less estimated selling costs. Losses arising at the time of foreclosure of properties are charged to the allowance for loan losses. No other real estate owned was sold during the three months ended September 30, 2018 . Other real estate owned with a cost basis of $42,000 was sold during the nine months ended September 30, 2018 , resulting in a net loss of $4,000. Other real estate owned with a cost basis of $0.4 million and $0.5 million was sold during the three and nine months ended September 30, 2017 , respectively, resulting in a net gain of $37,000 and $32,000 for the respective periods. At September 30, 2018 , approximately $0.8 million of loans secured by real estate were in the process of foreclosure.

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

	September 30, 2018	December 31, 2017
Construction and development	$ 185	$ 183
1-4 Family	—	42
Farmland	205	—
Commercial real estate	3,837	3,612
Total other real estate owned	$ 4,227	$ 3,837

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

	Nine months ended September 30,	
	2018	2017
Balance, beginning of period	$ 3,837	$ 4,065
Additions	227	—
Transfers from acquired loans	205	—
Acquired other real estate owned	—	429
Sales of other real estate owned	(42)	(481)
Write-downs	—	(183)
Balance, end of period	$ 4,227	$ 3,830

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 September 30, 2018 , the Bank was within the policy guidelines for asset/liability management.

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

As of September 30, 2018	
Changes in Interest Rates (in basis points)	**Estimated Increase/Decrease in Net Interest Income [(1)]**
+300	(3.0)%
+200	(2.0)%
+100	(1.0)%
-100	3.5%
-200	3.6%
-300	1.9%

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

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

Liquidity and Capital Resources

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

Our core deposits, which are deposits excluding time deposits greater than $250,000 and deposits of municipalities and other political entities, are our most stable source of liquidity to meet our cash flow needs due to the nature of the long-term relationships generally established with our customers. Maintaining the ability to acquire these funds as needed in a variety of markets, and within ALCO compliance targets, is essential to ensuring our liquidity. At September 30, 2018 and December 31, 2017 , 64% and 66% 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 September 30, 2018 , securities with a carrying value of $90.4 million were pledged to secure certain deposits, borrowings, and other liabilities, compared to $90.8 million in pledged securities at December 31, 2017 .

Other sources available for meeting liquidity needs include advances from the FHLB, repurchase agreements and other borrowings. FHLB advances are primarily used to match-fund fixed rate loans in order to minimize interest rate risk and also may be used to meet day to day liquidity needs, particularly if the prevailing interest rate on an FHLB advance compares favorably to the rates that we would be required to pay to attract deposits. At September 30, 2018 , the balance of our outstanding advances with the FHLB was $208.1 million , an increase from $166.7 million at December 31, 2017 . The total amount of the remaining credit available to us from the FHLB at September 30, 2018 was $462.7 million. Repurchase agreements are contracts for the sale of securities which we own with a corresponding agreement to repurchase those securities at an agreed upon price and date. Our policies limit the use of repurchase agreements to those collateralized by investment securities. We had $17.9 million of repurchase agreements outstanding at September 30, 2018 compared to $21.9 million of repurchase agreements outstanding at December 31, 2017 . We maintain unsecured lines of credit with other commercial banks totaling $60.0 million. The lines of credit mature at various times within the next year. We had no outstanding balances on our unsecured lines of credit at September 30, 2018 and December 31, 2017 .

Our liquidity strategy is focused on using the least costly funds available to us in the context of our balance sheet composition and interest rate risk position. Accordingly, we target growth of noninterest-bearing deposits. Although we cannot directly control the types of deposit instruments our customers choose, we can influence those choices with the interest rates and deposit specials we offer. We do not hold any brokered deposits, as defined for federal regulatory purposes, although we do hold QwikRate ® deposits, included in our time deposit balances, which we obtain through a qualified network to address liquidity needs when rates on such deposits compare favorably with deposit rates in our markets. At September 30, 2018 , we held $58.7 million of QwikRate ® deposits, a decrease compared to $70.5 million at December 31, 2017 .

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 nine month periods ended September 30, 2018 and 2017 .

	Percentage of Total				**Cost of Funds**			
	Three months ended September 30,		**Nine months ended September 30,**		**Three months ended September 30,**		**Nine months ended September 30,**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Noninterest-bearing demand deposits	14%	14%	15%	12%	—%	—%	—%	—%
Interest-bearing demand deposits	26	26	25	28	0.83	0.71	0.73	0.70
Savings accounts	8	8	8	6	0.47	0.54	0.46	0.60
Time deposits	35	38	35	40	1.51	1.14	1.34	1.18
Short-term borrowings	10	10	10	11	1.83	1.19	1.64	1.05
Long-term borrowed funds	7	4	7	3	2.71	3.07	2.68	3.08
Total deposits and borrowed funds	100%	100%	100%	100%	1.15%	0.90%	1.03%	0.92%

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

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

The Company and the Bank each were in compliance with all regulatory capital requirements at September 30, 2018 and December 31, 2017 . 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**
September 30, 2018				
Investar Holding Corporation:				
Tier 1 leverage capital	$ 170,346	10.08%	$ —	—%
Common equity tier 1 capital	163,846	11.43	—	—
Tier 1 capital	170,346	11.88	—	—
Total capital	197,670	13.79	—	—
Investar Bank:				
Tier 1 leverage capital	185,534	10.98	84,467	5.00
Common equity tier 1 capital	185,534	12.96	93,075	6.50
Tier 1 capital	185,534	12.96	114,554	8.00
Total capital	194,655	13.59	143,193	10.00
December 31, 2017				
Investar Holding Corporation:				
Tier 1 leverage capital	$ 161,438	10.66%	$ —	—%
Common equity tier 1 capital	154,938	11.75	—	—
Tier 1 capital	161,438	12.24	—	—
Total capital	187,530	14.22	—	—
Investar Bank:				
Tier 1 leverage capital	175,943	11.63	75,668	5.00
Common equity tier 1 capital	175,943	13.35	85,647	6.50
Tier 1 capital	175,943	13.35	105,411	8.00
Total capital	183,867	13.95	131,764	10.00

Off-Balance Sheet Transactions

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 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 1.9 years . The total notional amount of the derivative contracts is $50.0 million .

The Bank enters into loan commitments and standby letters of credit in the normal course of its business. Loan commitments are made to meet the financing needs of our customers, while standby letters of credit commit the Bank to make payments on behalf of customers when certain specified future events occur. The credit risks associated with loan commitments and standby letters of credit are essentially the same as those involved in making loans to our customers. Accordingly, our normal credit policies apply to these arrangements. Collateral (e.g., securities, receivables, inventory, equipment, etc.) is obtained based on management's credit assessment of the customer. Loan commitments are also evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded loan commitments is included in other liabilities in the consolidated balance sheets and was $101,000 and $32,000 at September 30, 2018 and December 31, 2017 , respectively.

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):

	September 30, 2018	December 31, 2017
Commitments to extend credit:		
Loan commitments	$ 221,237	$ 174,278
Standby letters of credit	11,177	3,832

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 September 30, 2018 , the Company had unfunded commitments of $0.1 million for its investment in Small Business Investment Company qualified funds.

For the three and nine months ended September 30, 2018 and for the year ended December 31, 2017 , except as disclosed herein and in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 , we engaged in no off-balance sheet transactions that we believe are reasonably likely to have a material effect on our financial condition, results of operations, or cash flows.

Contractual Obligations

The following table presents, at September 30, 2018 , contractual obligations to third parties by payment date (dollars in thousands).

	Payments Due In:				
	Less than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without a stated maturity [1]	$ 750,908	$ —	$ —	$ —	$ 750,908
Time Deposits [1] [2]	370,067	157,172	16,088	—	543,327
Securities sold under agreements to repurchase [1]	17,931	—	—	—	17,931
Federal Home Loan Bank advances [2]	150,000	3,100	—	55,000	208,100
Subordinated debt [2]	—	—	—	18,600	18,600
Junior subordinated debt [2]	—	—	—	6,702	6,702
Total contractual obligations	$ 1,288,906	$ 160,272	$ 16,088	$ 80,302	$ 1,545,568

(1) Excludes interest.

(2) Excludes unamortized premiums and discounts.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosures about market risk as of December 31, 2017 are set forth in the Company's Annual Report on Form 10-K filed with the SEC on March 16, 2018 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, 2017 . 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 nine months ended September 30, 2018 .

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1A. Risk Factors

For information regarding risk factors that could affect Investar Holding Corporation's (the "Company") results of operations, financial condition and liquidity, see the risk factors disclosed in the Annual Report on Form 10-K for the year ended December 31, 2017 filed by the Company with the Securities and Exchange Commission ("SEC") on March 16, 2018.

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 September 30, 2018 .

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]
July 1, 2018 to July 31, 2018	5,832	$ 27.05	4,461	186,330
August 1, 2018 to August 31, 2018	38,380	27.12	38,306	148,024
September 1, 2018 to September 30, 2018	55	27.45	—	148,024
	44,267	$ 27.11	42,767	148,024

(1) Includes 1,500 shares surrendered to cover the payroll taxes due upon the vesting of restricted stock.

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

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

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

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

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

Item 6. Exhibits

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Reorganization, dated October 10, 2018, by and among Investar Holding Corporation, Investar Bank, and Mainland Bank [(1)]
3.1	Restated Articles of Incorporation of Investar Holding Corporation [(2)]
3.2	Amended and Restated By-laws of Investar Holding Corporation [(3)]
4.1	Specimen Common Stock Certificate [(4)]
4.2	Indenture, dated March 24, 2017, by and between Investar Holding Corporation and Wilmington Trust, National Association, as Trustee [(5)]
4.3	Supplemental Indenture, dated March 24, 2017, by and between Investar Holding Corporation and Wilmington Trust, National Association, as Trustee [(6)]
10.1	Form of Voting Agreement, dated October 10, 2018, among Investar Holding Corporation, Mainland Bank and the shareholders party thereto [(7)]
10.2	Form of Director Support Agreement, dated October 10, 2018, between Investar Holding Corporation, Mainland Bank and the directors of Mainland Bank [(8)]
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 2.1 to the Current Report on Form 8-K of the Company filed with the SEC on October 10, 2018 and incorporated herein by reference.
(2) 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.
(3) Filed as exhibit 3.2 to the Registration Statement on Form S-4 of the Company filed with the SEC on October 10, 2017 and incorporated herein by reference.
(4) 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.
(5) Filed as exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on March 24, 2017 and incorporated herein by reference.
(6) Filed as exhibit 4.2 to the Current Report on Form 8-K filed with the SEC on March 24, 2017 and incorporated herein by reference.
(7) Filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on October 10, 2018 and incorporated herein by reference.
(8) Filed as Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on October 10, 2018 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 SEC, upon its request, a copy of all long-term debt instruments.

SIGNATURES

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

	INVESTAR HOLDING CORPORATION
Date: November 9, 2018	/s/ John J. D'Angelo
	John J. D'Angelo President and Chief Executive Officer (Principal Executive Officer)
Date: November 9, 2018	/s/ Christopher L. Hufft
	Christopher L. Hufft Chief Financial Officer (Principal Financial Officer)

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 September 30, 2018 of Investar Holding Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

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

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

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

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

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

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

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

Date: November 9, 2018

/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 September 30, 2018 of Investar Holding Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

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

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

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

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

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

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

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

Date: November 9, 2018

/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 September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John J. D'Angelo, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 9, 2018

/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 September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christopher L. Hufft, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 9, 2018

/s/ Christopher L. Hufft

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