Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Drake D. Mills
Name of the Holding Company Director and Official

Chairman of the Board
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and *individual consent to public release of all details in the report concerning that individual.*

Signature of Holding Company Director and Official

03/05/2018
Date of Signature

For holding companies not *registered with the SEC–*
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2017
Month / Day / Year

54930055DO2Z4KO3NB45
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Origin Bancorp, Inc.
Legal Title of Holding Company

500 S Service Road East
(Mailing Address of the Holding Company) Street / P.O. Box

Ruston	LA	71270
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Bobby Thompson	Tax & Reg Reporting Mgr
Name	Title

601-899-1561
Area Code / Phone Number / Extension

318-242-7561
Area Code / FAX Number

bthompson@origin.bank
E-mail Address

N/A
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes: 0

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... [ ]
2. a letter justifying this request has been provided separately ... [ ]

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

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(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

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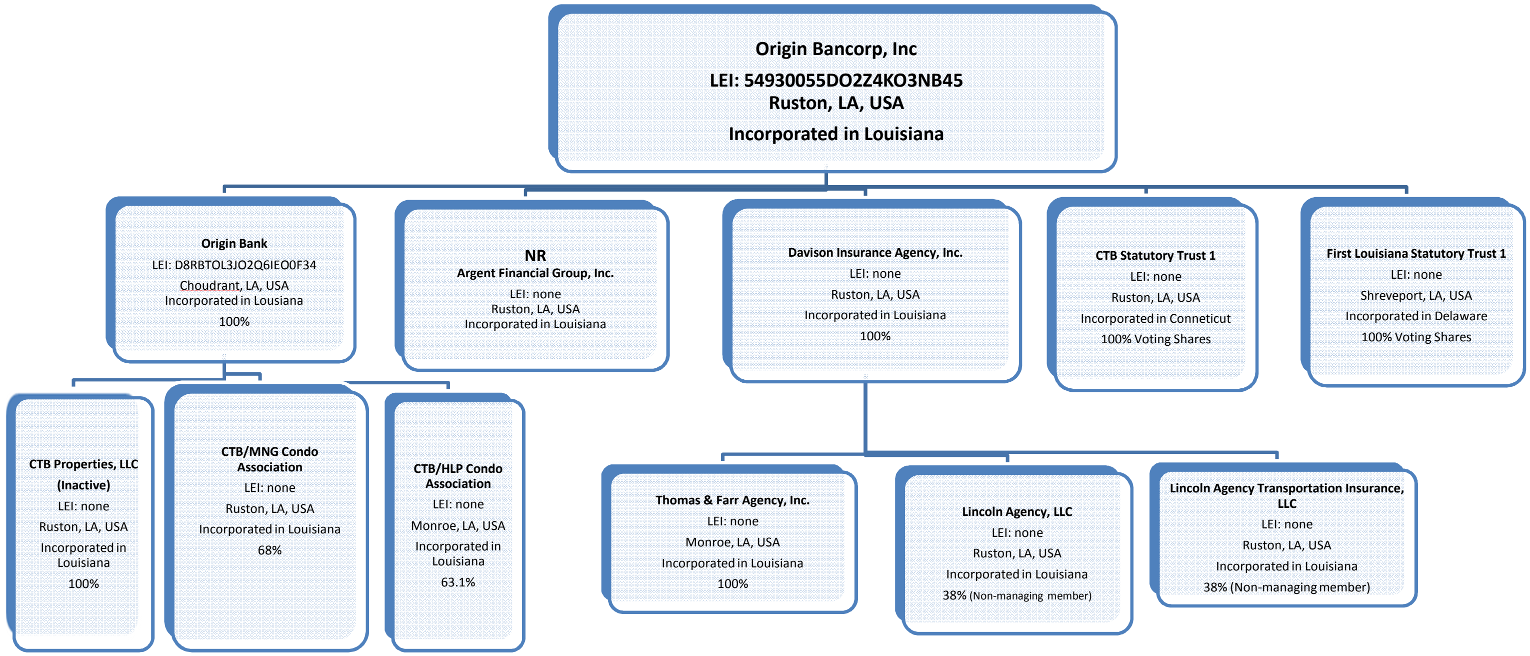
Form FR Y-6
Origin Bancorp, Inc
Ruston, Louisiana
Fiscal Year Ending December 31, 2017

Item 1 The bank holding company prepares an annaul report for its securities holders and is not registered with the SEC.
A copy of the annual report for the bank holding company is enclosed

Item 2a Organizational Chart



Item 2b Domestic branch listing provided to the Federal Reserve through email correspondence.

NR = Ownership percentage is not reportable on the FR Y-10. The percentage of ownership in Argent Financial Group, Inc.
is less than 25% and it is not controlled by any other means.

Results: A list of branches for your depository institution: ORIGIN BANK (ID_RSSD: 667757).
This depository institution is held by ORIGIN BANCORP, INC. (1885307) of RUSTON, LA.
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	667757	ORIGIN BANK	3921 ELM STREET	CHOUDRANT	LA	71227	LINCOLN	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	3799547	BASTROP BANKING CENTER	1927 EAST MADISON AVENUE	BASTROP	LA	71220	MOREHOUSE	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	915159	BERNICE BANKING CENTER	418 CHERRY STREET	BERNICE	LA	71222	UNION	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	3538278	AIRLINE BANKING CENTER	2790 AIRLINE DRIVE	BOSSIER CITY	LA	71111	BOSSIER	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	3544998	CALHOUN BANKING CENTER	2995 HIGHWAY 80 WEST	CALHOUN	LA	71225	OUACHITA	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Limited Service	4640431	DALLAS COUNTY MOBILE BRANCH	3921 ELM STREET	CHOUDRANT	LA	71227	LINCOLN	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Limited Service	5062281	HOUSTON REGION MOBILE BRANCH	3921 ELM STREET	CHOUDRANT	LA	71227	LINCOLN	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	670056	FARMERVILLE FINANCIAL CENTER	200 NORTH MAIN STREET	FARMERVILLE	LA	71241-0725	UNION	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	728359	HIGHWAY 2 BANKING CENTER	929 STERLINGTON HIGHWAY	FARMERVILLE	LA	71241	UNION	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	3455254	FORSYTHE BANKING CENTER	2400 FORSYTHE AVENUE	MONROE	LA	71201	OUACHITA	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	3545007	HIGHWAY 165 BANKING CENTER	1500 STERLINGTON ROAD	MONROE	LA	71203	OUACHITA	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	3199884	MONROE FINANCIAL CENTER	1800 HUDSON LANE	MONROE	LA	71201	OUACHITA	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	1492460	DEPOT BANKING CENTER	301 WEST ALABAMA AVENUE	RUSTON	LA	71270	LINCOLN	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	731751	NORTHSIDE BANKING CENTER	2010 FARMERVILLE HIGHWAY	RUSTON	LA	71270	LINCOLN	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	2517650	RUSTON FINANCIAL CENTER	1511 NORTH TRENTON STREET	RUSTON	LA	71270	LINCOLN	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	3481365	UNIVERSITY BANKING CENTER	1011 COOKTOWN ROAD	RUSTON	LA	71270	LINCOLN	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Limited Service	2893671	VIENNA BANKING CENTER	305 SOUTH VIENNA STREET	RUSTON	LA	71270	LINCOLN	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	3538287	MARKET STREET BANKING CENTER	308 MARKET STREET	SHREVEPORT	LA	71101	CADDO	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	2777070	SHREVEPORT FINANCIAL CENTER	1350 EAST 70TH STREET	SHREVEPORT	LA	71105	CADDO	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	3596782	CYPRESS BANKING CENTER	5084 CYPRESS STREET	WEST MONROE	LA	71291	OUACHITA	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	2893680	WEST MONROE FINANCIAL CENTER	2211 NORTH 7TH STREET	WEST MONROE	LA	71291	OUACHITA	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4485847	FLOWOOD BANKING CENTER	203 PROMENADE BLVD	FLOWOOD	MS	39232	RANKIN	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	5066168	JACKSON BANKING CENTER BRANCH	120 CITY CENTER DRIVE	JACKSON	MS	39211	HINDS	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4456986	MADISON BANKING CENTER	1910 MAIN STREET	MADISON	MS	39110	MADISON	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Limited Service	4222172	MADISON COUNTY MOBILE BANKING CENTER	1912 MAIN STREET	MADISON	MS	39110	MADISON	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4222752	OXFORD BANKING CENTER	1312 UNIVERSITY AVENUE	OXFORD	MS	38655	LAFAYETTE	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4180928	HIGHLAND COLONY FINANCIAL CENTER	1063 HIGHLAND COLONY PARKWAY	RIDGELAND	MS	39157	MADISON	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4506274	ALLEN BANKING CENTER	384 E. STACY ROAD	ALLEN	TX	75002	COLLIN	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4552598	DALLAS FINANCIAL CENTER	3838 OAK LAWN AVENUE, 2 TURTLE CREEK VILLAGE	DALLAS	TX	75219	DALLAS	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	3717288	PRESTON BANKING CENTER	8222 DOUGLAS AVENUE, SUITE 1	DALLAS	TX	75225-5923	DALLAS	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	3978146	7TH STREET BANKING CENTER	3000 WEST 7TH STREET, SUITE 120	FORT WORTH	TX	76107	TARRANT	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4399373	CAMP BOWIE BANKING CENTER	5800 CAMP BOWIE BLVD.	FORT WORTH	TX	76107	TARRANT	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4801803	FORT WORTH FINANCIAL CENTER	500 THROCKMORTON STREET, SUITE 350	FORT WORTH	TX	76102	TARRANT	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4314189	FRISCO BANKING CENTER	9456 STATE HIGHWAY 121	FRISCO	TX	75035	COLLIN	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	1448207	CHAMPIONS BANKING CENTER	6767 FM 1960 WEST	HOUSTON	TX	77069	HARRIS	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	2366616	MEDICAL BANKING CENTER	8002 KIRBY DRIVE	HOUSTON	TX	77054	HARRIS	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	3267336	MEMORIAL BANKING CENTER	12600 MEMORIAL DRIVE	HOUSTON	TX	77024	HARRIS	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4520373	MEMORIAL CITY FINANCIAL CENTER	960 MEMORIAL CITY WAY	HOUSTON	TX	77024	HARRIS	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	647656	MUSEUM DISTRICT BANKING CENTER	5115 MAIN STREET	HOUSTON	TX	77002	HARRIS	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4999045	RIVER OAKS BANKING CENTER	2049 WEST GRAY STREET	HOUSTON	TX	77019	HARRIS	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	5044728	TANGLEWOOD BRANCH	1702 FOUNTAIN VIEW DRIVE	HOUSTON	TX	77057	HARRIS	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4557865	WEST UNIVERSITY BANKING CENTER	5324 KIRBY DRIVE, WEST UNIVERSITY PLACE	HOUSTON	TX	77005	HARRIS	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4413859	LAS COLINAS BANKING CENTER	7720 NORTH MACARTHUR BOULEVARD	IRVING	TX	75063	DALLAS	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	
OK		Full Service	4680240	THE WOODLANDS BANKING CENTER	2170 BUCKTHORNE PLACE, SUITE 150	THE WOODLANDS	TX	77380	MONTGOMERY	UNITED STATES	Not Required	Not Required	ORIGIN BANK	667757	

Form FR Y-6
Origin Bancorp, Inc
Ruston, Louisiana
Fiscal Year Ending December 31, 2017

Report Item 3:

Current Shareholders with ownership, control or holdings of 5% or more with the power to vote as of fiscal year ending 12-31-2017

(1)(a) Name & Address (City, State, Country)	(1)(b) Country or Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities
Pine Brook Road Partners LLC New York, NY, USA	USA	1,803,285 - 9.24% - Common
Castle Creek Capital Partners IV, LP Rancho Santa Fe, CA, USA	USA	1,621,622 - 8.31% - Common
Community Trust Financial Corporation Employee Stock Ownership Plan Trustee: Argent Trust Company Ruston, LA	USA	1,107,131 5.67% - Common

Shareholders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2017

(1)(a) Name & Address (City, State, Country)	(1)(b) Country or Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities
-0-		

Form FR Y-6
Origin Bancorp, Inc
Ruston, Louisiana
Fiscal Year Ending December 31, 2017

Report Item 4 (Insiders)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Name, City, State, Country	**Principal Occupation if other than with Holding Company**	**Title & Position with Holding Co.**	**Title & Position with Subsidaries**	**Title & Position with Other Businesses (include name of Business)**	**Percentage of Voting Shares in Holding Company**	**Percentage of Voting Shares in Subsidiaries**	**Any Other Companies if 25% or more of voting securities are held**
Michael A. Jones Ruston, LA, USA	Certified Public Acct.	Director	Director - Davison Insurance	Partner, Jones & Jones CPAs	1.05%	0.00%	Michael A. Jones, CPA - 100% Caty's Condo LLC - 50% Mike Jones, Inc - 100%
Jack P. Love Ruston, LA, USA	Business Consultant	Director	N/A	Owner, Twin Oaks Nursery	1.50%	0.00%	Twin Oaks Nursery, Inc - 50%
Hez Elkins Spearsville, LA, USA	Agriculture	Director	N/A	N/A	1.32%	0.00%	N/A
John M. Buske Ruston, LA, USA	Retired Businessman	Director	N/A	N/A	0.28%	0.00%	N/A
Ronald Graham Choudrant, LA, USA	Building & Construction	Director	N/A	CEO - Lincoln Builders, Inc.	0.67%	0.00%	Graham Brothers, Inc - 50% Louisiana Methane, LLC - 37.5% Master Concrete Inc - 50%
George Snellings Ruston, LA, USA	Attorney	Director	N/A	Attorney, Nelson, Zentner, Sartor & Snellings, LLC	0.11%	0.00%	N/A
Drake D. Mills Ruston, LA, USA	Banker	Chairman, CEO & President	Director/President - CTB/HLP Condo Director/VP - CTB/MNG Condo	N/A	1.05%	0.00%	RADR LLC - 50% 2M Property Management LLC - 100% MNG Properties LLC - 33.33% TPS McAdams LLC - 100% Blackpond Inv LLC - 50%
James E. Davison, Jr. Ruston, LA, USA	Investments	Director	N/A	President, Louisiana Aircraft, Inc	3.07%	0.00%	Fargo Transport, Inc. fka Davison Transport, Inc. - 33.3% Squire Creek Communications, Inc. - 33.3% Falco Acquisitions LLC - 25% Falco Energy Services LLC - 25% Fugimo LLC - 25% Southern Composite Yachts, Inc. - 25%
Ronnie Myrick Monroe, LA, USA	Banker	Director	Chairman - Community Trust Bank	N/A	0.66%	0.00%	The Wetlands - 33% Bastrop Miniwarehouse - 33% Myrick Bros - 50% Lakeview Nursing - 33% Concordia Nursing - 33% Professional Health Services - 33% Resource Rehab - 33%
Gary Luffey Ruston, LA, USA	Opthalmologist	Director	N/A	Physician & Partner - Green Clinic Owner - Luffey Timber Company	0.73%	0.00%	Luffey Timber Company - 100% Liberty Healthcare - 25%
Elizabeth Solender Dallas, TX, USA	President, Commercial Real Estate Broker	Director	N/A	President & Broker, Solender/Hall, Inc. President, Mujeres Empresarias, Inc.	0.05%	0.00%	Solender/Hall, Inc. - 100% Mujeres Banderas, Inc. - 50%
Pine Brook Road Partners, LLC Oliver Goldstein New York, NY, USA	Investor	Director	N/A	EVP, Pine Brook Road Partners, LLC Limited Partner, Pine Brook Road Advsiors, LP Director of AloStar Bank of Commerce	9.24%	0.00%	N/A
Castle Creek Capital Partners IV, LP John Pietrzak Santa Fe, CA, USA	Investor	Director	N/A	President, Pietrzak Advisory Corp Director, Square 1 Financial Corporation and Square 1 Bank Principal, CCC IV, LLC and CCAIV - Fund IV Managing Principal, CCC V, LLC, CCA IV - Fund V, CC AZ TARP Special Managing Principal, CC TARP Advisors. CC C;ass B Tarp, CC Class B Tarp Advisors, CC Special Situations Advisors, CC SSF - D GP LL C	8.31%	0.00%	Pietrzak Advisory Corp - 100%
James D'agostino Houston, TX, USA	Managing Director, Encore Interests, LLC	Director	N/A	N/A	0.28%	0.00%	Elegant Edibles LLC - 50% Encore Interest LLC - 100%
Farrell Malone Shreveport, LA USA	Certified Public Acct.	Director	N/A	N/A	0.02%	0.00%	N/A
David Winkler Shreveport, LA USA	Retired Banker	Director	N/A	Manager - Winkler Land Co. LLC Manager - Winkler Royalty LLC Manager - Winkler Energy LLC Asst Manager- Bossier Land Acct. LLC Asst Manager - Beene Office Park LLC Secretary/Director - Haynesville Merc. Co. Commissioner Caddo Parish Fire District Five	0.71%	0.00%	Winkler Land Co. LLC - 89% Winkler Royalty LLC - 50% Winkler Energy LLC - 92%
Steven Taylor Monroe, LA, USA	Automotive Dealer	Director	N/A	President, Partner - Car Town of Monroe, Inc.	0.32%	0.00%	Car Town of Monroe, Inc. - 33% CTR Warranty - 33.3% West Monroe Land Development - 50% Twin City Investment - 33.3% Ride Time Auto Credit - 33.3%

Origin Bancorp, Inc.

RUSTON, LOUISIANA

2017 Annual Report

TABLE OF CONTENTS

Report of Management

In this management report, the following subsidiary institution of Origin Bancorp, Inc. (the "Company") that is subject to Part 363 is included in the statement of management 's responsibilities; the report on management's assessment of compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions; and the report on management's assessment of internal control over financial reporting: Origin Bank.

Statement of Management's Responsibilities

The management of the Company is responsible for preparing the Company's annual financial statements in accordance with accounting principles generally accepted in the United States of America; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies, Form Y-9C; and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance With Designated Laws and Regulations

The management of the Company has assessed the Company's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2017. Based upon its assessment, management has concluded that the Company complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2017.

Management's Assessment of Internal Control Over Financial Reporting

The Company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, *i.e.,* Consolidated Financial Statements for Bank Holding Companies, Form Y-9C. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company' s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management is responsible for establishing and maintaining effective internal control over financial reporting, including controls over the preparation of regulatory financial statements. Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies, Form Y-9C, as of December 31, 2017, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based upon its assessment, management has concluded that, as of December 31, 2017, the Institution's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies, Form Y-9C, is effective based on the criteria established in Internal Control--Integrated Framework. The following subsidiary institutions of the

Company that are subject to Part 363 are included in this assessment of the effectiveness of internal control over financial reporting: Origin Bank.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies, Form Y-9C, as of December 31, 2017, has been audited by BKD, LLP, an independent public accounting firm, as stated in their report dated March 2, 2018.

Origin Bancorp, Inc.

By ______________________________
Drake D. Mills, Chief Executive Officer

By ______________________________
Steve Brolly, Chief Financial Officer

BKD LLP
CPAs & Advisors

400 W. Capitol Avenue, Suite 2500 // P.O. Box 3667 // Little Rock, AR 72203-3667
501.372.1040 // fax 501.372.1250 // bkd.com

Independent Auditor's Report

Audit Committee and Board of Directors
Origin Bancorp, Inc.
Ruston, Louisiana

We have audited the accompanying consolidated financial statements of Origin Bancorp, Inc., which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Origin Bancorp, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Origin Bancorp's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 2, 2018, expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

BKD, LLP
BKD, LLP

Little Rock, Arkansas
March 2, 2018

BKD LLP
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Independent Auditor's Report

Audit Committee and Board of Directors
Origin Bancorp, Inc.
Ruston, Louisiana

We have audited Origin Bancorp's internal control over financial reporting as of December 31, 2017, based on criteria established in the *Internal Control – Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for Internal Control over Financial Reporting

Management is responsible for designing, implementing and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Report of Management.

Auditor's Responsibility

Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America.

Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Origin Bancorp, Inc.'s internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9-C). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, Origin Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in the *Internal Control – Integrated Framework (2013)*, issued by the COSO.

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of Origin Bancorp, Inc. as of and for the years ended December 31, 2017 and 2016, and our report dated March 2, 2018, expressed an unmodified opinion thereon.

BKD, LLP
BKD, LLP

Little Rock, Arkansas
March 2, 2018

ORIGIN BANCORP, INC.
Consolidated Balance Sheets

	December 31, 2017	December 31, 2016
Assets	(in thousands, except share data)	
Cash and due from banks	$ 78,489	$ 72,621
Interest-bearing deposits in banks	108,698	187,262
Total cash and cash equivalents	187,187	259,883
Securities:		
Available for sale	404,532	375,517
Held to maturity	20,188	20,710
Securities carried at fair value through income	12,033	12,511
Total securities	436,753	408,738
Non-marketable equity securities held in other financial institutions	22,967	19,675
Loans held for sale ($32,768 and $47,309 at fair value, respectively)	65,343	70,841
Loans, net of allowance for loan losses of $37,083 and $50,531, respectively ($26,611 and $33,693 at fair value, respectively)	3,203,948	3,061,544
Premises and equipment, net	77,408	86,739
Mortgage servicing rights	24,182	29,385
Cash surrender value of bank-owned life insurance	27,993	28,499
Goodwill and other intangible assets, net	24,336	24,854
Deferred tax assets, net	9,026	13,488
Accrued interest receivable and other assets	74,852	67,809
Total assets	$ 4,153,995	$ 4,071,455
Liabilities and Stockholders' Equity		
Noninterest-bearing deposits	$ 832,853	$ 780,065
Interest-bearing deposits	2,060,068	2,014,260
Time deposits	619,093	648,941
Total deposits	3,512,014	3,443,266
FHLB advances and repurchase agreements	111,782	110,343
Junior subordinated debentures	9,619	9,596
Accrued expenses and other liabilities	65,238	59,593
Total liabilities	3,698,653	3,622,798
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, no par value, 2,000,000 shares authorized		
Preferred stock - Series SBLF (48,260 authorized and issued)	48,260	48,260
Preferred stock - Series D (950,000 shares authorized; 901,644 shares issued)	16,998	16,998
Common stock ($5 par value; authorized 50,000,000 shares; issued 19,518,752 and 19,483,718 shares, respectively)	97,594	97,419
Additional paid-in capital	146,061	145,068
Retained earnings	145,122	137,449
Accumulated other comprehensive income	1,307	3,463
Total stockholders' equity	455,342	448,657
Total liabilities and stockholders' equity	$ 4,153,995	$ 4,071,455

ORIGIN BANCORP, INC.
Consolidated Statements of Income

	Years ended December 31, 2017	2016
	(Dollars in thousands, except per share data)	
Interest and dividend income		
Interest and fees on loans	$ 138,858	$ 127,846
Investment securities-taxable	6,233	4,970
Investment securities-nontaxable	4,766	4,900
Interest and dividend income on assets held in other financial institutions	2,736	1,435
Total interest and dividend income	152,593	139,151
Interest expense		
Interest-bearing deposits	19,314	15,250
FHLB advances and other borrowings	2,426	2,672
Subordinated debentures	548	546
Total interest expense	22,288	18,468
Net interest income	130,305	120,683
Provision for credit losses	8,336	30,078
Net interest income after provision for credit losses	121,969	90,605
Noninterest income		
Service charges and fees	11,606	11,019
Mortgage banking revenue	15,806	14,869
Insurance commission and fee income	7,207	6,775
Gain on sales of securities, net	—	136
Loss on non-mortgage loans held for sale, net	(12,708)	—
Gain (loss) on sales and disposals of other assets, net	1,036	(515)
Other fee income	2,176	2,970
Other income	4,064	6,614
Total noninterest income	29,187	41,868
Noninterest expense		
Salaries and employee benefits	70,862	63,924
Occupancy and equipment, net	15,915	17,127
Data processing	5,209	4,837
Electronic banking	2,056	2,365
Communications	1,928	2,474
Advertising and marketing	2,923	2,849
Professional services	4,722	4,587
Regulatory assessments	2,867	3,229
Loan related expenses	4,419	3,873
Office and operations	5,456	5,940
Litigation settlement	10,000	—
Other expenses	4,317	5,502
Total noninterest expense	130,674	116,707
Income before income tax expense	20,482	15,766
Income tax expense	5,813	2,916
Net income	14,669	12,850
Preferred stock dividends	4,461	4,398
Net income allocated to participating stockholders	377	316
Net income available to common stockholders	$ 9,831	$ 8,136
Basic earnings per common share	$ 0.51	$ 0.46
Diluted earnings per common share	$ 0.50	$ 0.46

ORIGIN BANCORP, INC.
Consolidated Statements of Comprehensive Income

	Years Ended December 31,	
	2017	2016
	(Dollars in thousands)	
Net income	$ 14,669	$ 12,850
Other comprehensive income		
Securities available for sale and transferred securities:		
Net unrealized holding losses arising during the period	(3,414)	(2,599)
Net losses realized as a yield adjustment in interest on investment securities	(10)	(9)
Reclassification adjustment for net gains included in net income	—	(136)
Change in the net unrealized gain/loss on investment securities, before tax	(3,424)	(2,744)
Cash flow hedges:		
Net unrealized gain (loss) arising during the period	4	(60)
Reclassification adjustment for losses included in net income	102	157
Change in the net unrealized gain/loss on cash flow hedges, before tax	106	97
Other comprehensive loss, before taxes	(3,318)	(2,647)
Income tax benefit related to items of other comprehensive income	(1,162)	(926)
Other comprehensive loss, net of tax	(2,156)	(1,721)
Comprehensive income	$ 12,513	$ 11,129

ORIGIN BANCORP, INC.
Consolidated Statements of Changes in Stockholders' Equity

	Common Shares Outstanding	Preferred Stock Series SBLF	Preferred Stock Series D	Common Stock	Additional Paid-In Capital	Retained Earnings	Unallocated ESOP Shares	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	(Dollars in thousands, except share data)								
Balance at January 1, 2016 [(1)]	17,399,534	$ 48,260	$ 15,000	$ 43,549	$ 155,584	$ 131,328	$ (465)	$ 5,184	$ 398,440
Net income	—	—	—	—	—	12,850	—	—	12,850
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(1,721)	(1,721)
Recognition of stock compensation	89,269	—	—	484	1,061	—	—	—	1,545
Net change in ESOP shares	40,292	—	—	—	—	—	465	—	465
Stock issuance - Common	1,954,623	—	—	9,773	32,036	—	—	—	41,809
Stock issuance - Preferred	—	—	1,998	—	—	—	—	—	1,998
Two for one common stock split in the form of a 100% dividend	—	—	—	43,613	(43,613)	—	—	—	—
Dividends declared - Series SBLF preferred stock	—	—	—	—	—	(4,290)	—	—	(4,290)
Dividends declared - Series D preferred stock						(108)			(108)
Dividends declared - common stock ($0.13 per share)[(1)]	—	—	—	—	—	(2,331)	—	—	(2,331)
Balance at December 31, 2016	19,483,718	48,260	16,998	97,419	145,068	137,449	—	3,463	448,657
Net income	—	—	—	—	—	14,669	—	—	14,669
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(2,156)	(2,156)
Recognition of stock compensation	35,034	—	—	175	750	—	—	—	925
Tax benefit of 2016 stock issuance costs	—	—	—	—	243	—	—	—	243
Dividends declared - Series SBLF preferred stock	—	—	—	—	—	(4,344)	—	—	(4,344)
Dividends declared - Series D preferred stock						(117)			(117)
Dividends declared - common stock ($0.13 per share)	—	—	—	—	—	(2,535)	—	—	(2,535)
Balance at December 31, 2017	19,518,752	$ 48,260	$ 16,998	$ 97,594	$ 146,061	$ 145,122	$ —	$ 1,307	$ 455,342

(1) Presentation for 2016 beginning share and per share amounts has been adjusted to reflect a 2-for-1 stock split that occurred on October 5, 2016.

ORIGIN BANCORP, INC.
Consolidated Statement of Cash Flows (Continued)

	Year ended December 31, 2017	Year ended December 31, 2016
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 14,669	$ 12,850
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	8,336	30,078
Depreciation and amortization	5,852	7,848
Net amortization on securities	1,416	1,347
Amortization of investments in tax credit funds	2,629	2,251
Net realized gain on securities sold	—	(136)
Deferred income tax expense	4,931	1,400
Stock-based compensation expense	1,150	1,547
Originations of mortgage loans held for sale, net	(500,234)	(745,320)
Proceeds from mortgage loans held for sale	517,326	754,667
Originations of mortgage servicing rights	(3,061)	(4,230)
Net (gain) loss on disposals of premises and equipment	(1,434)	198
Loss on non-mortgage loans held for sale	12,708	—
Increase in the cash surrender value of life insurance	(631)	(708)
Write downs and net losses on sales of other real estate owned	398	328
Net increase in accrued interest and other assets	(9,759)	(14,135)
Net increase in accrued expenses and other liabilities	8,745	5,757
Other operating activities, net	(2,384)	629
Net cash provided by operating activities	60,657	54,371
Cash flows from investing activities:		
Purchases of securities available for sale	(443,033)	(465,690)
Maturities, paydowns and calls of securities available for sale	409,180	433,361
Proceeds from sales of securities available for sale	—	7,136
Maturities, paydowns and calls of securities held to maturity	520	513
Paydowns of securities carried at fair value	381	673
Net purchases of non-marketable equity securities held in other financial institutions	(3,199)	(318)
Paydowns and proceeds from non-mortgage loans held for sale	13,260	—
Originations of mortgage warehouse loans	(4,343,469)	(3,677,464)
Proceeds from pay-offs of mortgage warehouse loans	4,344,800	3,722,658
Net increase in loans, excluding mortgage warehouse and mortgage loans held for sale	(179,383)	(169,338)
Purchases of premises and equipment	(3,031)	(7,925)
Proceeds from sales of premises and equipment	4,411	44
Proceeds from sales of other real estate owned	3,244	1,852
Net cash used in investing activities	(196,319)	(154,498)
Cash flows from financing activities:		
Net increase in deposits	68,748	55,446
Net decrease in other borrowed funds	(1,294)	(4,766)
Net increase (decrease) in securities sold under agreements to repurchase	2,733	(4,933)
Dividends paid	(6,996)	(5,764)
Taxes paid related to net share settlement of equity awards	(348)	(739)
Cash received from exercise of stock options	123	737
Proceeds from issuance of common stock	—	41,809
Proceeds from issuance of preferred stock	—	1,998
Net cash provided by financing activities	62,966	83,788
Net decrease in cash and cash equivalents	(72,696)	(16,339)
Cash and cash equivalents at beginning of period	259,883	276,222
Cash and cash equivalents at end of period	$ 187,187	$ 259,883

Note 1 - Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Origin Bancorp, Inc. (the "Company") and all other entities in which Origin Bancorp, Inc. has a controlling financial interest, including Origin Bank (the “Bank”) and Davison Insurance Agency, LLC ("Davison Insurance"); and Davison Insurance’s wholly owned subsidiary, Thomas & Farr Agency, LLC (“T&F”). All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and financial reporting policies we follow conform, in all material respects, to accounting principles generally accepted in the United States ("US GAAP") and to general practices within the financial services industry.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (“VIE”) under accounting principles generally accepted in the United States. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has both the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company's wholly owned subsidiaries CTB Statutory Trust I and First Louisiana Statutory Trust I are VIEs for which it's not the primary beneficiary. Accordingly, the accounts of these trusts are not included in the Company's consolidated financial statements.

Nature of Operations

The Company provides a variety of financial services to individuals and businesses through its offices in Louisiana, Texas and Mississippi. The Company is subject to competition from other financial institutions and is also subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

T&F is an insurance agency with its principal office located in Monroe, Louisiana, that operates a primarily property and casualty insurance business.

Operating Segments

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. The Bank is the only significant subsidiary upon which management makes decisions regarding how to allocate resources and assess performance. Individual bank branches offer a group of similar services, including commercial, real estate and consumer loans, time deposits, checking and savings accounts, all with similar operating and economic characteristics. While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the community banking services and branch locations are considered by management to be aggregated into one reportable operating segment, community banking.

Use of Estimates

To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Material estimates that are subject to significant change in the near term are the allowance for loan losses, valuation of other real estate owned, fair value of mortgage servicing rights, realization of deferred tax assets, fair values of financial instruments and the status of contingencies. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all cash on hand, demand deposits with other banks, federal funds sold and short term interest-bearing cash items with an original maturity less than 90 days to be cash equivalents. The Company maintains deposits with other financial institutions in amounts that exceed federal deposit insurance coverage. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

At December 31, 2017 and 2016, the Company had cash collateral required to be held with counterparties on certain derivative transactions as discussed in Note 11 - Derivative Financial Instruments. At December 31, 2017 and 2016, the Company had no reserve requirement for cash balances with the Federal Reserve.

Additional cash flow information is as follows:

	Years ended December 31,	
	2017	2016
	(Dollars in thousands)	
Interest paid	$ 22,686	$ 18,564
Income taxes paid	5,268	7,091
Significant non-cash transactions:		
Real estate acquired in settlement of loans	749	3,729

Securities

The Company accounts for debt and equity securities as follows:

Available for Sale (“AFS”) - Debt and equity securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as AFS. These assets are carried at fair value. Fair value is determined using published quotes. If quoted market prices are not available, fair values are based on other methods including, but not limited to the discounting of cash flows.

Held to Maturity (“HTM”) - Debt securities that management has the positive intent and ability to hold until maturity are classified as HTM and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts.

Securities Carried at Fair Value through the Income Statement - Debt securities for which the Company has elected the fair value option for accounting are classified as securities carried at fair value through income. Management has elected the fair value option for these items to offset the corresponding change in fair value of related interest rate swap agreements. Fair value is determined using discounted cash flows and credit quality indicators. Changes in fair value are reported through the consolidated statements of income as a part of other noninterest income.

Unrealized gains and losses on AFS securities are excluded from earnings and reported net of tax in Accumulated Other Comprehensive Income until realized. Declines in the fair value of AFS and HTM securities below their cost are reflected in earnings as realized losses to the extent the impairment is deemed to be other-than-temporary credit losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) management's intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The amount of the impairment related to other factors is recognized in other comprehensive income unless there is no ability or intent to hold to recovery.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities to the earlier of the call date or maturity date. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held for Sale

Loans held for sale include mortgage loans and are carried at fair value, with unrealized gains and losses recorded in the consolidated statements of income.

Forward commitments to sell mortgage loans are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are mandatory forward commitments, and the Company is required to substitute another loan or to buy back the commitment if the original loan does not fund. Typically, the Company delivers the mortgage loans within a few days after the loans are funded. These commitments are derivative instruments carried at fair value.

Gains and losses resulting from sales of mortgage loans are realized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price (including the fair value of any items such as mortgage servicing rights) and the carrying amount of the loans sold. Fees received from borrowers to guarantee the funding of mortgage loans held for sale are recognized as income or expense when the loans are sold or when it becomes evident that the commitment will not be used.

Loans

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, and certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Late fees are recognized as income when earned, assuming collectability is reasonably assured.

The Company has elected the fair value option on a portion of its loans held for investment, with changes in fair value recorded in noninterest income. For these loans, the earned current contractual interest payment is recognized in interest income. Loan origination costs and fees are recognized in earnings as incurred and not deferred. Because these loans are recognized at fair value, the Company's nonaccrual, allowance for loan losses, and charge-off policies do not apply to these loans. Fair value is determined using discounted cash flows and credit quality indicators.

In addition to loans issued in the normal course of business, the Company considers overdrafts on customer deposit accounts to be loans and classifies these overdrafts as loans in its consolidated balance sheets.

Loans are placed on nonaccrual status when management believes that the borrower’s financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful, or generally when loans are 90 days or more past due. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Past due status is based on contractual terms of the loan. Interest income on nonaccrual loans may be recognized to the extent cash payments are received, but payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status when principal and interest payments are less than 90 days past due, the customer has made required payments for at least six months, and the Company reasonably expects to collect all principal and interest.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loans are charged off against the allowance for loan losses when management believes the loss is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired, and 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 relates to loans that are not classified as impaired and is based on historical charge-off experience and the expected loss, given default, derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when 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. Impaired loans include nonperforming loans and loans modified in troubled debt restructurings ("TDRs"). TDRs are loans for which the contractual terms on the loan have been modified and both of the following conditions exist: (1) the borrower is experiencing financial difficulty and (2) the restructuring constitutes a concession. Concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. The Company assesses all loan modifications to determine whether they constitute a TDR. All TDRs are considered impaired loans. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Premises and Equipment, net

Land is carried at cost. Buildings and improvements are stated at cost less accumulated depreciation computed using the straight-line method over the estimated useful lives of the assets, which range from thirty-five to forty years. Furniture, fixtures, and equipment are stated at cost less accumulated depreciation computed using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are capitalized and depreciated using the straight-line method over the estimated useful lives of the leasehold improvements or the expected terms of the leases, if shorter.

Non-marketable Equity Securities Held in Other Financial Institutions

Securities with limited marketability, such as stock in the Federal Reserve Bank of Dallas ("FRB") or the Federal Home Loan Bank of Dallas ("FHLB"), and other investments in financial institutions, are carried at cost. These investments in stock do not have a readily determinable fair value. The carrying value of these securities was evaluated and was determined not to be impaired for the years ended December 31, 2017 and 2016.

Mortgage Servicing Rights and Transfers of Financial Assets

Gains or losses on "servicing-retained" loan sale transactions generally include a component reflecting the differential between the contractual interest rate of the loan and the interest rate to be received by the investor. The present value of the estimated future profit for servicing the loans is also taken into account in determining the amount of gain or loss on the sale of these loans. For loans sold servicing-retained, the fair value of mortgage servicing rights is recorded as an asset, with their value estimated using a discounted cash flow methodology to arrive at the present value of future expected earnings from the servicing of the loans. Significant model inputs include prepayment speeds, discount rates, and servicing costs. Servicing revenues are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned.

Loans sold into the secondary market are considered transfers of financial assets. These transfers are accounted for as sales when control over the asset has been surrendered, which is deemed to have occurred when: an asset does not have any claims to it by the transferor or their creditors, including in bankruptcy or other receivership situations; the transferee obtains the unconditional right to pledge or exchange the asset; or the transfer does not include a repurchase provision above the limited recourse provisions of these loan sales.

Derivative Instruments and Hedging Activities

All derivatives are recorded on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. During the term of a cash flow hedge contract the effective portion of changes in fair value in the derivative instrument are recorded in accumulated other comprehensive income. Changes in the fair value of derivatives to which hedge accounting does not apply are recognized immediately in earnings. Note 11 - Derivative Financial Instruments describes the derivative instruments currently used by the Company and discloses how these derivatives impact its consolidated balance sheets and statements of income.

Goodwill and Other Intangible Assets

Goodwill, which represents the excess of cost over the fair value of the net assets of an acquired business, is not amortized but tested for impairment on an annual basis, which is October 1 for the Company, or more often if events or circumstances indicate that there may be impairment. Other intangible assets, such as relationship based intangibles and core deposit intangibles, are amortized on a basis consistent with the receipt of economic benefit to us. Such assets are evaluated at least annually as to the recoverability of their carrying value for potential impairment. In the quarter following the period in which identified intangible assets become fully amortized, the fully amortized balances are removed from the gross asset and accumulated amortization amounts.

Other Real Estate Owned

Other real estate owned (“OREO”) represents properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure on loans on which the borrowers have defaulted as to payment of principal and interest. These properties are initially recorded at fair value, less cost to sell, at the date of foreclosure establishing a new cost basis. Fair value is determined based on third party appraisals. Any subsequent capital improvements that increase value are added to the balance of the properties. Any valuation adjustments required at the date of transfer from loans to OREO are charged to the allowance for loan losses. Any subsequent write-downs to reflect current fair value, or gains and losses on the sale of the properties are charged to noninterest income. At December 31, 2017 and 2016, the balance of OREO was $499,000 and $1.6 million, respectively, and included as a component of other assets in the accompanying consolidated balance sheets.

Overnight Repurchase Agreements with Depositors

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates it to repurchase the assets. Securities sold under agreements to repurchase generally mature on the banking day following that on which the investment was initially sold and are treated as collateralized financing transactions which are recorded at the amounts at which the securities were sold plus accrued interest. Interest rates and maturity dates of the securities involved vary and are not intended to be matched with funds from customers.

Mortgage Banking Revenue

This revenue category primarily reflects the Company's mortgage production, sales and mortgage servicing revenue, including fees and income derived from mortgages originated with the intent to sell; mortgage sales and servicing; and the impact of risk management activities associated with the mortgage pipeline and mortgage servicing rights ("MSRs"). This revenue category also includes gains and losses on sales and changes in fair value for mortgage loans originated with the intent to sell and measured at fair value under the fair value option. Changes in the fair value of MSRs are reported in mortgage banking revenue. Net interest income from mortgage loans is recorded in interest income.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Company did not have any amount accrued with respect to uncertainty in income taxes at December 31, 2017 or 2016.

The Company recognizes interest and/or penalties related to income tax matters as a component of noninterest expense. Penalties and related interest were $20,000 and $148,000 for the years ended December 31, 2017 and 2016, respectively. Federal income tax expense or benefit has been allocated to subsidiaries on a separate return basis.

Stock-Based Compensation

The cost of employee services received in exchange for stock options or restricted stock grants are measured using the fair value of the award on the grant date and is recognized over the service period. During 2016, the Company adopted the amendments outlined in *Accounting Standards Update ("ASU") No. 2016-09 — Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* The adoption of the ASU did not have a significant impact on its consolidated financial statements or disclosures.

Other Investments

The Company accounts for investments in limited partnerships, limited liability companies (“LLCs”), and other privately held companies using either the cost or the equity method of accounting if the investee is less than wholly owned. The accounting treatment depends upon the Company's percentage ownership or degree of management influence.

Under the cost method of accounting, the Company records an investment in stock at cost and generally recognizes cash dividends received as income. If cash dividends received exceed the Company's relative ownership of the investee's earnings since the investment date, these payments are considered a return of investment and reduce the cost of the investment.

Under the equity method of accounting, the Company records its initial investment at cost. Subsequently, the carrying amount of the investment is increased or decreased to reflect its share of income or loss of the investee. The Company's recognition of earnings or losses from an equity method investment is based on its ownership percentage in the investee and the investee's earnings for the reporting period, and is recorded on a one-quarter lag.

All of the Company's investments in limited partnerships, LLCs, and other companies are privately held, and their market values are not readily available. Management evaluates the investments in investees for impairment based on the investee's ability to generate cash through its operations or obtain alternative financing, and other subjective factors. There are inherent risks associated with investments in such companies, which may result in income statement volatility in future periods.

At December 31, 2017 and 2016, investments in limited partnerships, LLCs and other privately held companies totaled $11.3 million and $9.6 million, respectively, and were included in other assets in the accompanying consolidated balance sheets. Of these balances, $326,000 was accounted for under the cost method at December 31, 2017 and 2016.

Investments in Tax Credit Entities

As part of its Community Reinvestment Act responsibilities and due to their favorable economics, the Company invests in tax credit-motivated projects primarily in the markets it serves. These projects are directed at tax credits issued under Low-Income Housing Tax Credits. The Company generates returns on tax credit motivated projects through the receipt of federal, and if applicable, state tax credits. The federal tax credits are recorded as an offset to the income tax provision in the year that they are earned under federal income tax law – over 10 to 15 years beginning in the year in which rental activity commences. These credits, if not used in the tax return for the year of origination, can be carried forward for 20 years.

The Company invests in a tax credit entity, usually a limited liability company, which owns the real estate. The Company receives a nonvoting interest in the entity that must be retained during the compliance period for the credits (15 years for Low-Income Housing credit programs). Control of the tax credit entity rests in the 0.1% interest general partner, who has the power and authority to make decisions that impact economic performance of the project and is required to oversee and manage the project. Due to the lack of any voting, economic, or managerial control, and due to the contractual reduction in the investment, the Company accounts for its investment by amortizing the investment, beginning at the issuance of the certificate of occupancy of the project, over the compliance period, as management believes any potential residual value in the real estate will have limited value. Amortization is included as a component of income tax expense.

The Company has the risk of credit recapture if the project does not maintain compliance during the compliance period. No such events have occurred to date. At December 31, 2017 and 2016, the Company had investments in tax credit entities of $12.5 million and $15.2 million, respectively, which are included in other assets in the accompanying consolidated balance sheets.

Earnings per share

Basic earnings per common share is calculated using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each share of common stock and participating securities according to dividends declared (distributed earnings) and participation rights in undistributed earnings. Distributed and undistributed earnings are allocated between common and participating security shareholders based on their respective rights to receive dividends. Share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities (e.g., restricted stock grants). Preferred stock that receives dividends based on dividends paid on common stock is also considered a participating security (e.g., Series D preferred stock). Undistributed net losses are not allocated to holders of participating securities, as they do not have a contractual obligation to fund the losses incurred by the Company. Net income attributable to common stockholders is then divided by the weighted average number of common shares outstanding during the period, net of participating securities and reduced for average unallocated shares held by the Company's employee stock ownership plan ("ESOP").

Diluted income per common share considers common stock issuable under the assumed release of unvested restricted stock awards, convertible preferred stock being converted to common stock, and the assumed exercise of stock options granted. The dilutive effect of share-based payment awards that are not deemed to be participating securities is calculated using the treasury stock method, which assumes that the proceeds from exercise are used to purchase common stock at the average market price for the period. The dilutive effect of participating securities is calculated using the more dilutive of the treasury stock method (which assumes that the participating securities are exercised/released) or the two-class method (which assumes that the participating securities are not exercised/ released and earnings are reallocated between common and participating security shareholders). Potentially dilutive common stock equivalents are excluded from the computation of diluted earnings per common share in periods in which the effect would be antidilutive.

Recent Accounting Pronouncements

ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Since these amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. These amendments require that an entity disclose a description of the accounting policy for releasing income tax effects from accumulated other comprehensive income. These amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. These amendments should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company will adopt this ASU in the first quarter of 2018 and the impact on the consolidated financial statements or disclosures will not be significant.

ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 permits hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk. It also changes the guidance for designating fair value hedges of interest rate risk and for measuring the change in fair value of the hedged item in fair value hedges of interest rate risk. In addition to the amendments to the designation and measurement guidance for qualifying hedging relationships, the amendments in this ASU also align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This ASU requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. For public entities, these amendments are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted. The Company does not expect the adoption of this ASU to have a significant impact on the consolidated financial statements or disclosures.

ASU No. 2017-09, Compensation – Stock Compensation (Subtopic 718): Scope of Modification Accounting. ASU 2017-09 was issued to eliminate inconsistencies in the application of accounting for modifications of stock-based compensation awards. The ASU provides that an entity should account for the effects of a modification unless all of the following are met: (1) The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification, (2) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified, and (3) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The Company elected to adopt the provisions of ASU 2017-09 during the quarter ended June 30, 2017 in advance of the required application date. The adoption of this standard did not materially impact the amounts or disclosures in the Company's consolidated financial statements.

ASU No. 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium. The ASU provides that premiums on these securities are to be amortized to the earliest call date. The accounting for securities held at a discount is not changed, and therefore, they are still required to be amortized to maturity. The Company elected to adopt the provisions of ASU 2017-08 during the quarter ended March 31, 2017 in advance of the required application date. The adoption of this standard did not materially impact the amounts or disclosures in the Company's consolidated financial statements.

ASU No. 2017-04, Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment. This ASU simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in today's two-step impairment test. Under the new guidance, if a reporting unit’s carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The standard eliminates today’s requirement to calculate a goodwill impairment charge using Step 2, which requires an entity to calculate any impairment charge by comparing the implied fair value of goodwill with its carrying amount. This ASU is effective for annual periods beginning after December 15, 2019, and interim periods. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU 2017-04 is not expected to have a material impact on the amounts or disclosures in the Company's consolidated financial statements.

ASU No. 2016-18 —Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The amendments in this update should be applied using a retrospective transition method to each period presented. The Company does not expect the ASU to have a significant impact on its consolidated statement of cash flows.

ASU No. 2016-15 —Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the ASU to have a significant impact on the consolidated statements of cash flows.

ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current US GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. This Accounting Standards Update affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in the update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The guidance can be adopted as early as the fiscal years beginning after December 15, 2018. The Company continues to evaluate the impact of this ASU on the consolidated financial statements and disclosures.

ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 requires lessees to put most leases on their balance sheets but recognize expenses in the income statement in a manner similar to current accounting treatment. This ASU changes the guidance on sale-leaseback transactions, initial direct costs and lease execution costs, and, for lessors, modifies the classification criteria and the accounting for sales-type and direct financing leases. For public business entities, this ASU is effective for annual periods beginning after December 15, 2018 and interim periods therein. Early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is evaluating the impact of this ASU on the consolidated financial statements and disclosures.

ASU No. 2016-01 —Financial Instruments —Overall (Subtopic 825-10). The main provisions of the update are to eliminate the available for sale classification of accounting for equity securities and to adjust the fair value disclosures for financial instruments carried at amortized costs such that the disclosed fair values represent an exit price as opposed to an entry price. The provisions of this update will require that equity securities be carried at fair market value on the balance sheet and any periodic changes in value will be adjustments to the income statement. A practical expedient is provided for equity securities without a readily determinable fair value, such that these securities can be carried at cost less any impairment. The provisions of this update become effective for interim and annual periods beginning after December 15, 2017. The disclosure of fair value of the loan and interest-bearing deposit portfolios will be presented using an exit price method instead of the current discounted cash flow. The Company has concluded that the remaining requirements of this update are not expected to have a material impact on the financial position, results of operations or cash flows.

ASU No. 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis. ASU 2015-02 implements changes to both the variable interest consolidation model and the voting interest consolidation model. ASU 2015-02 (i) eliminates certain criteria that must be met when determining when fees paid to a decision-maker or service provider do not represent a variable interest, (ii) amends the criteria for determining whether a limited partnership is a variable interest entity and (iii) eliminates the presumption that a general partner controls a limited partnership in the voting model. Not all components of this update allow early adoption. The ASU became effective on January 1, 2017 and did not have a significant impact on the Company's financial statements.

ASU No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU affects entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. In August 2015, the FASB issued *ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted. Our revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and noninterest income. The identification of revenue streams within the scope of Topic 606 is complete, resulting in no impact on the Company's financial position, results of operations or cash flows; however, there will be additional disclosures required for noninterest income.

Note 2 - Earnings Per Share

	Years Ended December 31,	
	2017	2016
	(Dollars in thousands, except per share data)	
Basic earnings per common share		
Net income	$ 14,669	$ 12,850
Less: Dividends to preferred stock[(1)]	4,461	4,398
Net income allocated to participating stockholders [(1)]	377	316
Net income allocated to common stockholders	$ 9,831	$ 8,136
Weighted average common shares outstanding [(2) (4)]	19,418,278	17,545,655
Basic earnings per common share	$ 0.51	$ 0.46
Diluted earnings per common share		
Diluted earnings applicable to common stockholders [(3)]	$ 9,861	$ 8,136
Weighted average diluted common shares outstanding:		
Weighted average common shares outstanding[(2) (4)]	19,418,278	17,545,655
Dilutive effect of common stock options	216,134	187,406
Weighted average diluted common shares outstanding	19,634,412	17,733,061
Diluted earnings per common share	$ 0.50	$ 0.46

(1) Participating stockholders include those that hold certain share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents. Such shares or units are considered participating securities (i.e., nonvested restricted stock grants). Additionally, Series D preferred stockholders are participating stockholders as those shares participate in dividends with common shares on a one for one basis.

(2) Weighted average common shares outstanding excludes average unearned restricted shares in the computation of basic earnings per share. Under the two-class method, unearned restricted shares are included in the computation of diluted earnings per share, however, depending on nuances of the computation, may or may not affect the number of weighted average diluted common shares outstanding. Unearned restricted shares are considered issued and therefore included as part of total issued shares disclosed on the consolidated balance sheets.

(3) Net income allocated to common stockholders for basic and diluted earnings per share may differ under the two-class method as a result of adding common stock equivalents for options to dilutive shares outstanding, which alters the ratio used to allocate earnings to common stockholders and participating securities for the purposes of calculating diluted earnings per share.

(4) Presentation for 2016 share and per share amounts has been adjusted to reflect a 2-for-1 stock split that occurred on October 5, 2016.

Note 3 - Securities

The following table is a summary of the amortized cost and estimated fair value, including gross unrealized gains and losses, of available for sale and held to maturity securities for the dates indicated:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017		(Dollars in thousands)		
Available for sale:				
State and municipal securities	$ 125,909	$ 4,104	$ (35)	$ 129,978
Corporate bonds	3,000	136	—	$ 3,136
Residential mortgage-backed securities	105,132	492	(595)	$ 105,029
Residential collateralized mortgage obligations	168,645	262	(2,518)	$ 166,389
Total	$ 402,686	$ 4,994	$ (3,148)	$ 404,532
Held to maturity:				
State and municipal securities	$ 20,188	$ 77	$ —	$ 20,265
Securities carried at fair value through income:				
State and municipal securities[(1)]	$ 11,918	$ —	$ —	$ 12,033
December 31, 2016				
Available for sale:				
State and municipal securities	$ 125,988	$ 6,605	$ (124)	$ 132,469
Residential mortgage-backed securities	106,177	637	(793)	106,021
Residential collateralized mortgage obligations	138,093	762	(1,828)	137,027
Total	$ 370,258	$ 8,004	$ (2,745)	$ 375,517
Held to maturity:				
State and municipal securities	$ 20,710	$ 285	$ —	$ 20,995
Securities carried at fair value through income:				
State and municipal securities[(1)]	$ 12,298	$ —	$ —	$ 12,511

(1) Securities carried at fair value through income have no unrealized gains or losses at the balance sheet date as all changes in value have been recognized in the consolidated financial statements.

Securities in an unrealized loss position at December 31, 2017 and 2016 are presented below by investment category and length of time in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2017			(Dollars in thousands)			
Available for sale:						
State and municipal securities	$ 2,114	$ (5)	$ 1,210	$ (30)	$ 3,324	$ (35)
Residential mortgage-backed securities	46,018	(198)	20,233	(397)	66,251	(595)
Residential collateralized mortgage obligations	70,788	(641)	60,622	(1,877)	131,410	(2,518)
Total	$ 118,920	$ (844)	$ 82,065	$ (2,304)	$ 200,985	$ (3,148)
December 31, 2016						
Available for sale:						
State and municipal securities	$ 9,633	$ (124)	$ —	$ —	$ 9,633	$ (124)
Residential mortgage-backed securities	72,455	(793)	—	—	72,455	(793)
Residential collateralized mortgage obligations	84,320	(1,340)	11,893	(488)	96,213	(1,828)
Total	$ 166,408	$ (2,257)	$ 11,893	$ (488)	$ 178,301	$ (2,745)

At December 31, 2017, the Company had 62 securities that were in an unrealized loss position. The unrealized losses for each of the securities relate to market interest rate changes. The Company has considered the current market for the securities in an unrealized loss position, as well as the severity and duration of the impairments, and expects fair value of the securities to recover from an unrealized loss position. At December 31, 2017, management does not intend to sell these investments until the fair value exceeds amortized cost and it is more likely than not that the Company will not be required to sell debt securities before the anticipated recovery of the amortized cost basis of the security; thus, the impairment is determined not to be other-than-temporary.

Proceeds from sales of securities available for sale and gross gains for the years ended December 31, 2017 and 2016 are shown below. There were no gross unrealized losses in either year presented.

	2017	2016
	(Dollars in thousands)	
Proceeds from sales	$ —	$ 7,136
Gross realized gains	—	136

The following table presents the amortized cost and fair value of securities available for sale and held to maturity as of December 31, 2017, grouped by contractual maturity. Mortgage-backed securities and collateralized mortgage obligations, which do not have contractual payments due at a single maturity date, are shown separately. Actual maturities for mortgage-backed securities and collateralized mortgage obligations will differ from contractual maturities as a result of prepayments made on the underlying mortgages.

	Held to maturity		Available for sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	$ —	$ —	$ 2,245	$ 2,257
Due after one year through five years	14,963	15,040	23,947	24,605
Due after five years through ten years	—	—	85,002	87,752
Due after ten years	5,225	5,225	17,715	18,500
Residential mortgage-backed securities	—	—	105,132	105,029
Residential collateralized mortgage obligations	—	—	168,645	166,389
Total	$ 20,188	$ 20,265	$ 402,686	$ 404,532

Securities with a carrying value of $276.3 million and $266.9 million at December 31, 2017 and 2016, respectively, were pledged to secure public deposits. At December 31, 2017 and 2016, the carrying amount of securities pledged to repurchase agreements was $36.7 million and $38.6 million, respectively.

Securities carried at fair value through income

See Note 5 - Fair Value of Financial Instruments for more information.

Note 4 - Loans

Loans consist of the following:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Loans held for sale	$ 65,343	$ 70,841
Loans held for investment:		
Real estate:		
Commercial real estate	1,083,275	1,026,752
Construction/land/land development	322,404	311,279
Residential real estate loans	570,583	414,226
Total real estate	1,976,262	1,752,257
Commercial and industrial loans	989,220	1,135,683
Mortgage warehouse lines of credit	255,044	201,997
Consumer loans	20,505	22,138
Total loans held for investment[(1)]	3,241,031	3,112,075
Less: Allowance for loan losses	37,083	50,531
Net loans held for investment	$ 3,203,948	$ 3,061,544

(1) Presented net of net deferred loan fees of $1.0 million and net deferred loan costs of $2.2 million at December 31, 2017 and 2016, respectively.

Included in total loans held for investment are $21.0 million and $5.6 million of commercial real estate loans and commercial and industrial loans, respectively, for which the fair value option has been elected at December 31, 2017. At December 31, 2016, the Company held $27.6 million and $6.1 million of commercial real estate loans and commercial and industrial loans, respectively, at fair value. The Company mitigates the interest rate component of fair value risk on loans at fair value by entering into derivative interest rate contracts. See Note 5 - Fair Value of Financial Instruments for more information on loans for which the fair value option has been elected.

During the year ended December 31, 2017, energy loans totaling $26.6 million that were previously classified as held for investment were re-classified as held for sale. The reclassification was part of our strategy to reduce our energy loan portfolio through the sale of certain energy loans. We recognized losses of $12.7 million on those loans and recovered $583,000 of principal balances by foreclosing on certain real estate properties. We also received repayments of principal and proceeds from sales of $13.3 million. The $12.7 million of losses have been included as a component in noninterest income in the accompanying consolidated statements of income.

Credit quality indicators. As part of the Company's commitment to manage the credit quality of its loan portfolio, management annually updates and evaluates certain credit quality indicators, which include but are not limited to (i) weighted-average risk rating of the loan portfolio, (ii) net charge-offs, (iii) level of non-performing loans, (iv) level of classified loans, and (v) the general economic conditions in the states in which the Company operates. The Company maintains an internal risk rating system where ratings are assigned to individual loans based on assessed risk. Risk ratings are continually evaluated to ensure they are appropriate based on currently available information. These risk ratings are the primary indicator of credit quality for its loan portfolio.

The following is a summary description of the Company's internal risk ratings:

• Pass (1-6)	Loans within this risk rating are further categorized as follows:
Minimal risk (1)	Well-collateralized by cash equivalent instruments held by the Bank.
Moderate risk (2)	Borrowers with excellent asset quality and liquidity. Borrowers' capitalization and liquidity exceed industry norms. Borrowers in this category have significant levels of liquid assets and have a low level of leverage.
Better than average risk (3)	Borrowers with strong financial strength excellent liquidity that consistently demonstrate strong operating performance. Borrowers in this category generally have a sizable net worth that can be converted into liquid assets within 12 months.
Average risk (4)	Borrowers with sound credit quality and financial performance, including liquidity. Borrowers are supported by sufficient cash flow coverage generated through operations across the full business cycle.
Marginally acceptable risk (5)	Loans generally meet minimum requirements for an acceptable loan in accordance with lending policy, but possess one or more attributes that cause the overall risk profile to be higher than the majority of newly approved loans.
Watch (6)	A passing loan with one or more factors that identify a potential weakness in the overall ability of the borrower to repay the loan. These weaknesses are generally mitigated by other factors that reduce the risk of delinquency or loss.
• Special Mention (7)	This grade is intended to be temporary and includes borrowers whose credit quality have deteriorated and is at risk of further decline.
• Substandard (8)	This grade includes "Substandard" loans, in accordance with regulatory guidelines. Substandard loans exhibit a well-defined weakness that jeopardizes debt repayment in accordance with contractual agreements, even though the loan may be performing. These obligations are characterized by the distinct possibility that a loss may be incurred if these weaknesses are not corrected and repayment may be dependent upon collateral liquidation or secondary source of repayment.
• Doubtful (9)	This grade includes "Doubtful" loans, in accordance with regulatory guidelines. Such loans are placed on nonaccrual status and repayment may be dependent upon collateral with no readily determinable valuation or valuations that are highly subjective in nature. Repayment for these loans is considered improbable based on currently existing facts and circumstances.
• Loss (0)	This grade includes "Loss" loans in accordance with regulatory guidelines. Loss loans are charged-off or written-down when repayment is not expected.

The recorded investment in loans by credit quality indicator at December 31, 2017 and 2016, excluding loans held for sale, were as follows:

	December 31, 2017					
	Pass	Special mention	Substandard	Doubtful	Loss	Total
Loans secured by real estate:	(Dollars in thousands)					
Commercial real estate	$ 1,055,911	$ 7,798	$ 19,566	$ —	$ —	$ 1,083,275
Construction/land/land development	318,488	170	3,746	—	—	322,404
Residential real estate	560,945	778	8,860	—	—	570,583
Total real estate	1,935,344	8,746	32,172	—	—	1,976,262
Commercial and industrial loans	915,111	15,332	58,777	—	—	989,220
Mortgage warehouse lines of credit	255,044	—	—	—	—	255,044
Consumer loans	20,223	—	279	3	—	20,505
Total loans held for investment	$ 3,125,722	$ 24,078	$ 91,228	$ 3	$ —	$ 3,241,031

	December 31, 2016					
	Pass	**Special mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Loans secured by real estate:			(Dollars in thousands)			
Commercial real estate	$ 1,014,091	$ 4,686	$ 7,975	$ —	$ —	$ 1,026,752
Construction/land/land development	307,716	1,028	2,535	—	—	311,279
Residential real estate	405,137	167	8,922	—	—	414,226
Total real estate	1,726,944	5,881	19,432	—	—	1,752,257
Commercial and industrial loans	997,669	9,725	124,765	3,524		1,135,683
Mortgage warehouse lines of credit	201,997	—	—	—	—	201,997
Consumer loans	22,034	—	98	6	—	22,138
Total loans held for investment	$ 2,948,644	$ 15,606	$ 144,295	$ 3,530	$ —	$ 3,112,075

The following tables detail activity in the allowance for loan losses by portfolio segment. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	At and for the Year Ended December 31, 2017				
	Beginning balance	**Charge-offs**	**Recoveries**	**Provision[(1)]**	**Ending balance**
Loans secured by real estate:			(Dollars in thousands)		
Commercial real estate	$ 8,718	$ 463	$ 93	$ 650	$ 8,998
Construction/land/land development	2,805	3	5	143	2,950
Residential real estate	5,003	1,446	125	2,125	5,807
Commercial and industrial loans	33,590	21,767	1,918	5,090	18,831
Mortgage warehouse lines of credit	139	—	—	75	214
Consumer loans	276	198	69	136	283
Total	$ 50,531	$ 23,877	$ 2,210	$ 8,219	$ 37,083

(1) The provision for credit losses on the consolidated statements of income includes an \$8.2 million loan loss provision and an \$117,000 provision for off-balance sheet commitments for the year ended December 31, 2017.

	At and for the year ended December 31, 2016				
	Beginning balance	**Charge-offs**	**Recoveries**	**Provision (Benefit)[1]**	**Ending balance**
Loans secured by real estate:			(Dollars in thousands)		
Commercial real estate	$ 7,451	$ 422	$ 25	$ 1,664	$ 8,718
Construction/land/land development	3,927	24	7	(1,105)	2,805
Residential real estate	5,094	505	185	229	5,003
Commercial and industrial loans	23,648	24,851	4,199	30,594	33,590
Mortgage warehouse lines of credit	761	—	—	(622)	139
Consumer loans	349	604	126	405	276
Total	$ 41,230	$ 26,406	$ 4,542	$ 31,165	$ 50,531

[1] The provision for credit losses on the consolidated statements of income includes a $31.2 million loan loss provision offset by a $1.1 million release of provision for off-balance sheet commitments for the year ended December 31, 2016.

The following tables present impaired loans as of the periods indicated:

	December 31, 2017			
	Period end allowance allocated to loans individually evaluated for impairment	**Period end allowance allocated to loans collectively evaluated for impairment**	**Period end loan balance individually evaluated for impairment**	**Period ended loan balance collectively evaluated for impairment [1]**
Loans secured by real estate:		(Dollars in thousands)		
Commercial real estate	$ 312	$ 8,686	$ 4,945	$ 1,057,330
Construction/land/land development	4	2,946	1,963	320,441
Residential real estate	72	5,735	7,915	562,668
Commercial and industrial loans	4,356	14,475	24,598	959,011
Mortgage warehouse lines of credit	—	214	—	255,044
Consumer loans	63	220	237	20,268
Total	$ 4,807	$ 32,276	$ 39,658	$ 3,174,762

[1] Excludes $21.0 million and $5.6 million of commercial real estate loans and commercial and industrial loans, respectively, at fair value, which are not evaluated for impairment due to the fair value option election. See Note 5 - Fair Value of Financial Instruments for more information.

	December 31, 2016			
	Period end allowance allocated to loans individually evaluated for impairment	Period end allowance allocated to loans collectively evaluated for impairment	Period end loan balance individually evaluated for impairment	Period ended loan balance collectively evaluated for impairment [(1)]
Loans secured by real estate:	(Dollars in thousands)			
Commercial real estate	$ 32	$ 8,686	$ 6,214	$ 992,905
Construction/land/land development	251	2,554	929	310,350
Residential real estate	761	4,242	10,232	403,994
Commercial and industrial loans	12,437	21,153	76,756	1,052,867
Mortgage warehouse lines of credit	—	139	—	201,997
Consumer loans	112	164	287	21,851
Total	$ 13,593	$ 36,938	$ 94,418	$ 2,983,964

(1) Excludes $27.6 million and $6.1 million of commercial real estate loans and commercial and industrial loans, respectively, at fair value, which are not evaluated for impairment due to the fair value option election. See Note 5 - Fair Value of Financial Instruments for more information.

The following tables present the Company's loan portfolio aging analysis at December 31, 2017 and 2016:

	December 31, 2017						
	30-59 Days past due	60-89 Days past due	Loans past due 90 days or more	Total past due	Current loans	Total loans receivable	Accruing loans 90 or more days past due
Loans secured by real estate:	(Dollars in thousands)						
Commercial real estate	$ 8,427	$ 2,791	$ 1,150	$ 12,368	$ 1,070,907	$ 1,083,275	$ —
Construction/land/land development	1,488	172	464	2,124	320,280	322,404	—
Residential real estate	2,630	347	3,910	6,887	563,696	570,583	—
Total real estate	12,545	3,310	5,524	21,379	1,954,883	1,976,262	—
Commercial and industrial	1,517	9,922	8,074	19,513	969,707	989,220	—
Mortgage warehouse lines of credit	—	—	—	—	255,044	255,044	—
Consumer	178	128	74	380	20,125	20,505	—
Total	$ 14,240	$ 13,360	$ 13,672	$ 41,272	$ 3,199,759	$ 3,241,031	$ —

	December 31, 2016						
	30-59 Days past due	60-89 Days past due	Loans past due 90 days or more	Total past due	Current loans	Total loans receivable	Accruing loans 90 or more days past due
Loans secured by real estate:	(Dollars in thousands)						
Commercial real estate	$ 1,326	$ 28	$ 575	$ 1,929	$ 1,024,823	$ 1,026,752	$ —
Construction/land/land development	1,306	91	93	1,490	309,789	311,279	—
Residential real estate	3,429	2,440	4,396	10,265	403,961	414,226	—
Total real estate	6,061	2,559	5,064	13,684	1,738,573	1,752,257	—
Commercial and industrial	3,670	11,767	20,395	35,832	1,099,851	1,135,683	—
Mortgage warehouse lines of credit	—	—	—	—	201,997	201,997	—
Consumer	136	51	98	285	21,853	22,138	—
Total	$ 9,867	$ 14,377	$ 25,557	$ 49,801	$ 3,062,274	$ 3,112,075	$ —

The following tables present impaired loans at December 31, 2017 and 2016. No mortgage warehouse lines of credit were impaired at either December 31, 2017 or 2016.

	December 31, 2017				
	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Total recorded investment	Allocation of allowance for loan losses
Loans secured by real estate:	(Dollars in thousands)				
Commercial real estate	$ 6,047	$ 1,782	$ 3,163	$ 4,945	$ 312
Construction/land/land development	2,268	1,813	150	1,963	4
Residential real estate	10,024	6,750	1,165	7,915	72
Total real estate	18,339	10,345	4,478	14,823	388
Commercial and industrial	25,212	6,161	18,437	24,598	4,356
Consumer	259	141	96	237	63
Total impaired loans	$ 43,810	$ 16,647	$ 23,011	$ 39,658	$ 4,807

	December 31, 2016				
	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Total recorded investment	Allocation of allowance for loan losses
Loans secured by real estate:	(Dollars in thousands)				
Commercial real estate	$ 6,214	$ 6,121	$ 93	$ 6,214	$ 32
Construction/land/land development	929	678	251	929	251
Residential real estate	10,232	6,044	4,188	10,232	761
Total real estate	17,375	12,843	4,532	17,375	1,044
Commercial and industrial	80,158	38,497	38,259	76,756	12,437
Consumer	287	182	105	287	112
Total impaired loans	$ 97,820	$ 51,522	$ 42,896	$ 94,418	$ 13,593

The average recorded investment and interest recognized on impaired loans for the years ended December 31, 2017 and 2016 were as follows:

	December 31, 2017		December 31, 2016	
	Average Recorded Investment	Interest Income recognized	Average Recorded Investment	Interest Income recognized
Loans secured by real estate:	(Dollars in thousands)			
Commercial real estate	$ 7,046	$ 165	$ 7,179	$ 273
Construction/land/land development	1,053	10	1,179	55
Residential real estate	9,398	75	11,065	385
Total real estate	17,497	250	19,423	713
Commercial and industrial	40,316	375	94,940	3,139
Consumer	244	7	308	18
Total impaired loans	$ 58,057	$ 632	$ 114,671	$ 3,870

All interest accrued but not received for loans placed on nonaccrual status is reversed against interest income. Subsequent receipts on nonaccrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Troubled debt restructurings are included in certain loan categories within impaired loans. At December 31, 2017, the Company has committed to advance $1.9 million in connection with impaired loans.

Non-performing (nonaccrual) loans were as follows:

	December 31,	
	2017	2016
Loans secured by real estate:	(Dollars in thousands)	
Commercial real estate	$ 1,745	$ 1,975
Construction/land/land development	1,097	816
Residential real estate loans	7,166	7,188
Total real estate	10,008	9,979
Commercial and industrial loans	13,512	56,372
Consumer loans	282	210
Total nonaccrual loans	$ 23,802	$ 66,561

For the years ended December 31, 2017 and 2016, gross interest income which would have been recorded had the nonaccruing loans been current in accordance with their original terms was $1.3 million and $1.6 million, respectively. No interest income was recorded on these loans while they were considered nonaccrual during the years ended December 31, 2017 or 2016.

The Company elects the fair value option for recording residential mortgage loans held for sale, and certain commercial real estate and commercial and industrial loans, in accordance with US GAAP. The Company had no loans on nonaccrual that were recorded using the fair value option election during 2017 or 2016.

The following is a summary of loans classified as troubled debt restructurings ("TDRs").

	December 31, 2017	December 31, 2016
TDRs	(Dollars in thousands)	
Nonaccrual TDRs	$ 2,622	$ 10,900
Performing TDRs	14,234	4,225
Total	$ 16,856	$ 15,125
Specific reserves on TDRs	$ 1,252	$ 287

The following tables present the pre and post-modification balances of TDR modifications that occurred during the periods indicated:

	Year ended December 31, 2017				
	Pre-modification recorded balance	Term Concessions	Interest Rate Concessions	Combination	Total Modifications
Loans secured by real estate:	(Dollars in thousands)				
Commercial real estate	$ 2,071	$ 2,057	$ —	$ —	$ 2,057
Residential real estate	133	38	—	210	248
Total real estate	2,204	2,095	—	210	2,305
Commercial and industrial	10,799	9,882	—	40	9,922
Consumer loans	49	45	—	—	45
Total	$ 13,052	$ 12,022	$ —	$ 250	$ 12,272

	Year ended December 31, 2016				
	Pre-modification recorded balance	Term Concessions	Interest Rate Concessions	Combination	Total Modifications
Loans secured by real estate:	(Dollars in thousands)				
Commercial real estate	$ 398	$ 94	$ —	$ 206	$ 300
Residential real estate	129	—	—	96	96
Total real estate	527	94	—	302	396
Commercial and industrial	19,536	9,331	11	7	9,349
Consumer loans	22	21	—	—	21
Total	$ 20,085	$ 9,446	$ 11	$ 309	$ 9,766

During the year ended December 31, 2017, there was one loan restructured as a TDR with an outstanding principal balance of $241,000 that subsequently defaulted during the year. A payment default is defined as a loan that was 90 or more days past due. During the year ended December 31, 2016, there were 4 loans restructured as TDRs with a combined outstanding principal balance of $5.5 million that subsequently defaulted during the year. The modifications made during the years ended December 31, 2017 and 2016 did not significantly impact the Company's determination of the allowance for loan losses. Of the TDRs made during the years ended December 31, 2017 and 2016, all but one were on nonaccrual status prior to the modification, and none of the modifications involved forgiveness of principal. As a result, the current and future financial effects of the recorded balance of TDR loans that were restructured were not material. On an ongoing basis, the Company monitors the performance of the modified loans to their restructured terms. In the event of a subsequent default, the allowance for loan losses continues to be reassessed on the basis of an individual evaluation of the loan.

Note 5 - Fair Value of Financial Instruments

Fair value is defined by applicable accounting guidance as the price to sell an asset or transfer a liability in an orderly transaction between market participants in the principal market for the given asset or liability at the measurement date based on market conditions at that date. Certain assets and liabilities are recorded in the Company's financial statements at fair value. Some are recorded on a recurring basis and some on a non-recurring basis.

The Company utilizes fair value measurement to recorded fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. In cases where quoted market values in an active market are not available, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach to estimate the fair values of its financial instruments. Such valuation techniques are consistently applied.

A hierarchy for fair value has been established which categorizes the valuation techniques into three levels used to measure fair value. The three levels are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Fair value is based on significant other observable inputs which are generally determined based on a single price for each financial instrument provided to the Company by an applicable third-party pricing service and is based on one or more of the following:

- Quoted prices for similar, but not identical, assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are not active;
- Inputs other than quoted prices that are observable, such as interest rate and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates;
- Other inputs derived from or corroborated by observable market inputs.

Level 3 - Prices or valuation techniques that require inputs that are both significant and unobservable in the market. These instruments are valued using the best information available, some of which is internally developed, and reflects the Company's own assumptions about the risk premiums that market participants would generally require and the assumptions they would use.

Transfers between levels are recognized as of the end of the reporting period. There were no transfers to or from Level 1 during the periods presented. Transfers between Level 2 and Level 3 are included in the summary of changes in Level 3 assets and liabilities measured at fair value on a recurring basis. During 2016, a subset of available for sale securities was transferred from Level 2 to Level 3 in the hierarchy, due to a change in the valuation approach. The new valuation approach utilizes a discounted cash flow methodology, whereas the prior approach utilized values of comparable securities in active markets.

Fair Values of Assets and Liabilities Measured on a Recurring Basis

The following tables summarize financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value. There were no changes in the valuation techniques during the 2017 period.

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
State and municipal securities	$ —	$ 87,963	$ 42,015	$ 129,978
Corporate bonds	—	3,136	—	3,136
Residential mortgage-backed securities	—	105,029	—	105,029
Residential collateralized mortgage obligations	—	166,389	—	166,389
Securities available for sale	—	362,517	42,015	404,532
Securities carried at fair value through income	—	—	12,033	12,033
Loans held for sale	—	32,768	—	32,768
Loans at fair value	—	—	26,611	26,611
Mortgage servicing rights	—	—	24,182	24,182
Other assets - derivatives	—	3,146	—	3,146
Total recurring fair value measurements - assets	$ —	$ 398,431	$ 104,841	$ 503,272
Other liabilities - derivatives	$ —	$ (3,320)	$ —	$ (3,320)
Total recurring fair value measurements - liabilities	$ —	$ (3,320)	$ —	$ (3,320)

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
State and municipal securities	$ —	$ 88,611	$ 43,858	$ 132,469
Residential mortgage-backed securities	—	106,021	—	106,021
Residential collateralized mortgage obligations	—	137,027	—	137,027
Securities available for sale	—	331,659	43,858	375,517
Securities carried at fair value through income	—	—	12,511	12,511
Loans held for sale	—	47,309	—	47,309
Loans at fair value	—	—	33,693	33,693
Mortgage servicing rights	—	—	29,385	29,385
Other assets - derivatives	—	5,225	—	5,225
Total recurring fair value measurements - assets	$ —	$ 384,193	$ 119,447	$ 503,640
Other liabilities - derivatives	$ —	$ (5,393)	$ —	$ (5,393)
Total recurring fair value measurements - liabilities	$ —	$ (5,393)	$ —	$ (5,393)

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2017 and 2016 are summarized as follows:

	Loans at Fair Value	MSRs	Securities Available for Sale	Securities at FV Through Income
	(Dollars in thousands)			
Balance at January 1, 2017	$ 33,693	$ 29,385	$ 43,858	$ 12,511
Gain (loss) recognized in earnings:				
Mortgage banking revenue	—	(6,014)	—	—
Other noninterest income	(712)	—	—	(97)
Gain (loss) recognized in AOCI	—	—	425	—
Purchases, issuances, sales, transfers and settlements:				
Purchases	—	3,061	275	—
Sales	(2,516)	(2,250)	—	—
Settlements	(3,854)	—	(2,543)	(381)
Balance at December 31, 2017	$ 26,611	$ 24,182	$ 42,015	$ 12,033
Balance at January 1, 2016	$ 38,110	$ 31,522	$ —	$ 13,044
Transfer to Level 3 from Level 2	—	—	43,858	—
Gain (loss) recognized in earnings:				
Mortgage banking revenue	—	(6,367)	—	—
Other noninterest income	(522)	—	—	(140)
Purchases, issuances, sales, and settlements:				
Purchases	—	4,230	—	—
Settlements	(3,895)	—	—	(393)
Balance at December 31, 2016	$ 33,693	$ 29,385	$ 43,858	$ 12,511

The following methodologies were used to measure the fair value of financial assets and liabilities valued on a recurring basis:

Securities Available for Sale

Estimated fair values for securities available for sale are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments or discounted cash flows using observable interest rate curves and observable credit spread inputs.

Securities classified as available for sale are reported at fair value utilizing Level 2 or Level 3 inputs. For Level 2 securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things. In order to ensure the fair values are consistent with ASC 820, Fair Value Measurements and Disclosures, the Company periodically checks the fair value by comparing them to another pricing source, such as Bloomberg. The third -party pricing service is subject to an annual review of internal controls (SSAE 16), which is made available to the Company. In certain cases where Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Mortgage Servicing Rights

The carrying amounts of the mortgage servicing rights equals fair value. See Note 8 - Mortgage Banking for more information on inputs.

Derivatives

Fair values for interest rate swap agreements are based upon the amounts that would be required to settle the contracts. Fair values for derivative loan commitments and forward loan sale commitments are based on fair values of the underlying mortgage loans and the probability of such commitments being exercised. Significant management judgment and estimation is required in determining these fair value measurements.

Fair Values of Assets Measured on a Recurring Basis for which the Fair Value Option has been Elected

Certain assets are measured at fair value on a recurring basis due to the Company's election to adopt fair value accounting treatment for those assets. This election allows for a more effective offset of the changes in fair values of the assets and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under ASC 815, "Derivative and Hedging". The following tables summarize the difference between the fair value and the unpaid principal balance for financial instruments for which the fair value option has been elected:

	December 31, 2017		
	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Difference
	(Dollars in thousands)		
Loans held for sale[1]	$ 32,768	$ 32,216	$ 552
Commercial and industrial loans held for investment	5,611	5,591	20
Commercial real estate loans held for investment	21,000	20,451	549
Securities carried at fair value through income	12,033	11,918	115
Total	$ 71,412	$ 70,176	$ 1,236

	December 31, 2016		
	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Difference
	(Dollars in thousands)		
Loans held for sale[1]	$ 47,309	$ 47,233	$ 76
Commercial and industrial loans held for investment	6,059	5,920	139
Commercial real estate loans held for investment	27,633	26,438	1,195
Securities carried at fair value through income	12,511	12,298	213
Total	$ 93,512	$ 91,889	$ 1,623

(1) $2.4 million and $112,000 of loans were past due 90 days or more at December 31, 2017 and 2016, respectively. Of these balances, the Company has guarantees receivable from U.S. government agencies totaling $1.8 million and $112,000 at December 31, 2017 and 2016, respectively.

Changes in the fair value of assets for which the Company elected the fair value option are classified in the income statement line items reflected in the following table:

	Year Ended December 31, 2017	Year Ended December 31, 2016
	(Dollars in thousands)	
Changes in fair value included in noninterest income:		
Mortgage banking revenue	$ 477	$ (594)
Other income:		
Loans at fair value held for investment	$ (712)	$ (522)
Securities carried at fair value through income	(97)	(140)
Total impact on other income	(809)	(662)
Total fair value option impact on noninterest income	$ (332)	$ (1,256)

The following methodologies were used to measure the fair value of financial assets valued on a recurring basis for which the fair value option was elected:

Securities at Fair Value through Income

Securities carried at fair value through income are valued using a discounted cash flow with a credit spread applied to each instrument based on the credit worthiness of each issuer. Credit spreads ranged from 126 to 227 basis points at December 31, 2017. Credit spreads ranged from 83 to 227 basis points at December 31, 2016.

Loans Held for Sale

Fair values for loans held for sale are established using anticipated sale prices for loans allocated to a sale commitment, and those unallocated to a commitment are valued based on the interest rate and term for similar loans allocated.

Loans Held for Investment

For loans held for investment for which the fair value option has been elected, fair values are calculated using a discounted cash flow model with inputs including observable interest rate curves and unobservable credit adjustment spreads based on credit risk inherent in the loan. Credit spreads ranged from 283 to 413 basis points at December 31, 2017 and 2016.

Fair Values of Financial Instruments Not Measured at Fair Value

Accounting guidance from the FASB requires the disclosure of estimated fair value information about certain on- and off-balance sheet financial instruments, including those financial instruments that are not measured and reported at fair value on a recurring basis. The significant methods and assumptions used by the Company to estimate the fair value of financial instruments are discussed below.

Cash and Cash Equivalents and Time Deposits in Banks

The carrying amounts for cash and cash equivalents and time deposits in banks approximate their fair value.

Non-marketable Equity Securities Held in Other Financial Institutions

The carrying amounts of the investments approximate fair value.

Securities Held to Maturity

Estimated fair values for securities held to maturity are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments or discounted cash flows using observable interest rate curves and observable credit spread inputs.

Accrued Interest and Loan Fees Receivable

Accrued interest receivable represents interest on loans and investments. Accrued interest payable represents interest on deposits and borrowings. The carrying amount of accrued interest receivable and payable approximates fair value. Loan fees receivable represents fees assessed on loans.

Loans

For loans held for investment, fair values are estimated for portfolios of loans that have similar financial characteristics. Loans are segregated by type and maturity. Each loan category is further segmented into fixed and adjustable rate interest terms.

The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions. For purposes of estimating fair value, loans with a remaining maturity of three months or less and adjustable rate loans are assumed to be carried at approximate fair value due to re-pricing at current market rates.

Deposits

The carrying amount of noninterest-bearing deposits approximates fair value. The fair value of interest-bearing deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities by the Company and comparable institutions.

Short-Term Borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values.

Long-Term Borrowings

The fair value of the long-term advances from the FHLB is calculated using market interest rates currently available to the Company and comparable institutions for debt with similar terms and remaining maturities.

Junior Subordinated Debentures

The fair value is calculated using the discounted value of future cash flows which include market interest rates currently available to the Company and comparable institutions for debt with similar terms and remaining maturities.

Outstanding Commitments

Outstanding commitments include commitments to extend credit, letters of credit and unadvanced lines of credit for which fair values were estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions. The estimated fair value of these commitments was not material at December 31, 2017.

The carrying value and estimated fair values of financial instruments not measured at fair value are as follows:

	December 31, 2017		December 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:	(Dollars in thousands)			
Level 2 inputs:				
Cash and cash equivalents	$ 187,187	$ 187,187	$ 259,883	$ 259,883
Securities held to maturity	20,188	20,265	20,710	20,995
Non-marketable equity securities held in other financial institutions	22,967	22,967	19,675	19,675
Accrued interest and loan fees receivable	10,719	10,719	9,518	9,518
Level 3 inputs:				
Loans held for investment, net[1]	3,177,337	3,238,872	3,027,851	3,064,512
Financial liabilities:				
Level 2 inputs:				
Deposits	3,512,014	3,352,213	3,443,266	3,436,460
Overnight repurchase agreements with depositors	36,178	36,178	33,445	33,445
Long-term borrowings	75,604	76,577	76,898	76,063
Junior subordinated debentures	9,619	14,132	9,596	14,357
Accrued interest payable	2,424	2,424	2,845	2,845

(1) Loans held for investment, net does not include $26.6 million or $33.7 million of loans held at fair value at December 31, 2017 or 2016, respectively.

Fair Value of Assets Measured on a Nonrecurring Basis

Collateral Dependent Impaired Loans

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans. If the impaired loan is identified as collateral-dependent, the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. Impaired loans that are collateral-dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method. The fair value of impaired loans with specific allocated losses was $18.2 million and $33.1 million at December 31, 2017 and 2016, respectively.

Non-Financial Assets

Foreclosed assets held for sale are the only non-financial assets valued on a non-recurring basis which are initially recorded by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 3 inputs based on observable market data and was $499,000 and $1.6 million at December 31, 2017 and 2016, respectively. At December 31, 2017, the Company had $2.7 million in residential mortgage loans in the process of foreclosure.

Note 6 - Premises, Equipment, and Lease Commitments

Major classifications of premises and equipment are summarized below:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Land, buildings and improvements	$ 84,468	$ 86,941
Furniture, fixtures and equipment	25,349	29,260
Leasehold improvements	9,673	10,560
Construction in process	296	3,287
	119,786	130,048
Accumulated depreciation	(42,378)	(43,309)
Total	$ 77,408	$ 86,739

During 2017, the Company sold two tracts of bank-owned land in the Dallas-Fort Worth metroplex ("DFW") for a net gain of $1.5 million. At December 31, 2017, the Company holds a tract of land for sale in Shreveport which is reflected in land, building and improvements at $2.7 million and a closed banking center in the DFW area reflected in other real estate owned at $267,000.

The following schedule presents the Company's capital leases:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Gross book value	$ 1,665	$ 1,665
Accumulated amortization (included as a component of accumulated depreciation)	(963)	(722)
Net book value	$ 702	$ 943
Capital lease obligations	$ 758	$ 999

The Company also leases certain real estate for its banking premises, as well as certain equipment, under non-cancelable operating leases that expire at various dates through 2037. Management expects that, in the normal course of business, most leases that expire will be renewed or replaced by other similar leases. The Company recognizes escalating lease payments on a straight-line basis over the term of each respective lease with the difference between cash payment and rent expense recognized being recorded as deferred rent (included in accrued expenses and other liabilities) in the accompanying consolidated balance sheets.

Depreciation expense for premises and equipment totaled $5.3 million and $6.4 million for the years ended December 31, 2017 and 2016, respectively.

Minimum future lease obligations for capital and operating leases at December 31, 2017, were as follows:

Year ended December 31,	Capital Leases	Operating Leases
	(Dollars in thousands)	
2018	$ 276	$ 4,448
2019	276	3,820
2020	253	3,667
2021	—	3,294
2022	—	2,953
Thereafter	—	10,106
Total	805	28,288
Less amounts representing interest	47	—
Total lease obligations	$ 758	$ 28,288

Total lease and rental expense for the years ended December 31, 2017 and 2016 was $4.2 million and $4.0 million, respectively, and was included in occupancy and equipment, net in the accompanying consolidated statements of income.

Note 7 - Goodwill and Other Intangible Assets, Net

The components of the Company's goodwill and other intangible assets are as follows:

	Weighted Avg Remaining Useful Life (Yrs)	Gross	Accumulated Amortization	Net
As of December 31, 2017		(Dollars in thousands, except year data)		
Goodwill	—	$ 22,192	$ —	$ 22,192
Other intangible assets:				
Core deposit intangibles	4.3	1,260	(754)	506
Relationship based intangibles	10.8	3,996	(2,358)	1,638
Total		$ 27,448	$ (3,112)	$ 24,336
As of December 31, 2016				
Goodwill	—	$ 22,192	$ —	$ 22,192
Other intangible assets:				
Core deposit intangibles	5.3	1,846	(1,103)	743
Relationship based intangibles	11.8	3,996	(2,077)	1,919
Total		$ 28,034	$ (3,180)	$ 24,854

There were no changes to the carrying amount of the Company’s goodwill during the years ended December 31, 2017 and 2016. Amortization expense on other intangible assets totaled $518,000 and $1.5 million for the years ended December 31, 2017 and 2016, respectively, and was included as a component of other noninterest expense in the consolidated statements of income.

Estimated future amortization expense for intangible assets remaining at December 31, 2017 was as follows:

	(Dollars in thousands)
2018	$ 417
2019	335
2020	276
2021	218
2022	159
Thereafter	739
Total	$ 2,144

Note 8 - Mortgage Banking

The following table presents the Company's mortgage banking operations:

	Years ended December 31,	
	2017	**2016**
Revenue:	(Dollars in thousands)	
Origination	$ 1,281	$ 1,312
Gain on sale of loans held for sale	11,249	12,522
Servicing	7,873	8,146
MSR change due to payoffs/paydowns	(4,005)	(4,425)
Total	16,398	17,555
MSR and hedge fair value adjustment[(1)]	(592)	(2,686)
Mortgage banking revenue	$ 15,806	$ 14,869
Origination volume	$ 500,234	$ 745,320
Mortgage loans sold	517,326	754,667
Outstanding principal balance of mortgage loans serviced at year-end[(2)]	2,183,944	2,497,602

(1) The Company recorded a $343,000 write-down to MSR assets sold in 2017, which is included in this line.
(2) Included in the outstanding principal balance of mortgage loans serviced at December 31, 2017 and 2016 were loans serviced for the Company by others of $56.5 million and $64.4 million, respectively.

Management uses mortgage-backed securities to mitigate impact of changes in fair value of MSRs on the consolidated statements of income. See Note 11 - Derivative Financial Instruments for further information. Changes in MSRs related to fair value are recorded in mortgage banking revenue in the consolidated statements of income.

Mortgage Servicing Rights ("MSRs")

Activity in MSRs was as follows:

	Years ended December 31,	
	2017	2016
	(Dollars in thousands)	
Balance at beginning of period	$ 29,385	$ 31,522
Origination of servicing rights	3,061	4,230
Change in fair value, including amortization	(6,014)	(6,367)
Sale of servicing rights	(2,250)	—
Balance at end of period	$ 24,182	$ 29,385

The significant assumptions used to value MSRs were as follows:

	December 31,	
	2017	2016
Prepayment speed	10.80%	9.93%
Discount rate	9.33	8.82
Periodic servicing costs per loan	$ 76.22	$ 74.36

In recent years, there have been significant market-driven fluctuations in these assumptions listed above. These fluctuations can be rapid and may continue to be significant. Therefore, estimating these assumptions within ranges that market participants would use in determining the fair value of MSRs requires significant management judgment.

The Company receives annual servicing fee income approximating 0.29% of the outstanding balance of the underlying loans. In connection with the Company's activities as a servicer of mortgage loans, the investors and the securitization trusts have no recourse to the Company's assets for failure of debtors to pay when due.

The Company is potentially subject to losses in its loan servicing portfolio due to loan foreclosures. The Company has obligations to either repurchase the outstanding principal balance of a loan or make the purchaser whole for the economic benefits of a loan if it is determined that the loan sold was in violation of representations or warranties made by it at the time of the sale, herein referred to as mortgage loan servicing putback expenses. Such representations and warranties typically include those made regarding loans that had missing or insufficient file documentation and/or loans obtained through fraud by borrowers or other third parties. Putback requests may be made until the loan is paid in full. When a putback request is received, the Company evaluates the request and takes appropriate actions based on the nature of the request. The Company is required by Federal National Mortgage Association and Federal Home Loan Mortgage Corporation to provide a response to putback requests within 60 days of the date of receipt.

The total mortgage loan servicing putback expenses incurred by the Company were $106,000 and $83,000 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and December 31, 2016, the reserve for mortgage loan servicing putback expenses totaled $254,000 and $226,000, respectively. There is inherent uncertainty in reasonably estimating the requirement for reserves against future mortgage loan servicing putback expenses. Future putback expenses are dependent on many subjective factors, including the review procedures of the purchasers and the potential refinance activity on loans sold with servicing released and the subsequent consequences under the representations and warranties.

Government National Mortgage Association ("GNMA") optional repurchase programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution provides servicing. At the servicer's option and without GNMA's prior authorization, the servicer may repurchase such a delinquent loan for an amount equal to 100 percent of the remaining principal balance of the loan. This buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When the Company is deemed to have regained effective control over these loans under the unconditional buy-back option, the loans can no longer be reported as sold and must be brought back onto the balance sheet as mortgage loans held for sale, regardless of whether the Company intends to exercise the buy-back option. These loans are reported as held for sale at amortized cost with the offsetting liability being reported in other miscellaneous liabilities. The balance included in mortgage loans held for sale and other miscellaneous liabilities at December 31, 2017 and December 31, 2016 was $32.6 million and $23.5 million, respectively.

Note 9 - Deposits

Deposit balances are summarized as follows:

	At December 31, 2017	At December 31, 2016
	(Dollars in thousands)	
Noninterest-bearing demand	$ 832,853	$ 780,065
Interest bearing demand	738,967	788,936
Money market	900,039	793,016
Brokered	276,214	295,403
Savings	144,848	136,905
Time deposits	619,093	648,941
Total Deposits	$ 3,512,014	$ 3,443,266

Municipal deposits totaled $339.9 million and $334.9 million at December 31, 2017 and 2016, respectively.

Included in time deposits at December 31, 2017 and 2016, are $224.8 million and $243.5 million, respectively, of time deposits in denominations of $250,000 or more.

Maturities of time deposits are as follows:

Year ended December 31,	(Dollars in thousands)
2018	$ 345,586
2019	133,587
2020	75,339
2021	28,075
2022	36,506
	$ 619,093

At December 31, 2017 and 2016, overdrawn deposits of $640,000 and $1.0 million, respectively, were reclassified as unsecured loans.

Note 10 - Borrowings

Borrowed funds are summarized as follows:

	December 31, 2017	December 31, 2016
	(Dollars in thousands)	
Overnight repurchase agreements with depositors	$ 36,178	$ 33,445
Long-term FHLB advances	75,604	76,898
Total FHLB advances and repurchase agreements	$ 111,782	$ 110,343
Junior subordinated debentures	$ 9,619	$ 9,596

Short-Term Borrowings

As of December 31, 2017 and 2016, the Company had unsecured lines of credit for the purchase of federal funds in the amount of $125.0 million and $80.0 million respectively, with no amounts outstanding at either date. It is customary for the financial institutions granting the unsecured credit lines to require a minimum amount of cash be held on deposit at that institution. Amounts required to be held on deposit are typically $250,000 or less, and the Company has complied with all compensating balance requirements to allow utilization of these lines.

Securities sold under agreements to repurchase consist of the Company's obligations to other parties and mature on a daily basis. These obligations to other parties carried a daily average interest rate of 0.29% and 0.28% for the years ended December 31, 2017 and 2016, respectively.

Long-Term Borrowings

Interest rates for FHLB long-term advances outstanding at December 31, 2017 and December 31, 2016, ranged from 1.99% to 5.72%, and these advances are subject to restrictions or penalties in the event of prepayment.

Scheduled maturities of long-term advances from the FHLB at December 31, 2017 are as follows:

Year ended December 31,	(Dollars in thousands)
2018	$ 50,540
2019	847
2020	1,127
2021	1,167
2022	2,619
Thereafter	19,304
	$ 75,604

As of December 31, 2017, the Company held 14 unfunded letters of credit from the FHLB totaling $230.1 million with expiration dates ranging from January 11, 2018 to February 15, 2019. As of December 31, 2016, the Company held 12 unfunded letters of credit from the FHLB totaling $170.7 million with expiration dates ranging from January 23, 2017 to February 2, 2018.

Security for all indebtedness and outstanding commitments to the FHLB consists of a blanket floating lien on all of the Company's first mortgage loans, commercial real estate and other real estate loans, as well as the Company's investment in capital stock of the FHLB and deposit accounts at the FHLB. The net amounts available under the blanket floating lien as of December 31, 2017 and 2016 were $649.0 million and $627.6 million, respectively.

Junior Subordinated Debentures

The Company has two wholly-owned, unconsolidated subsidiary grantor trusts that were established for the purpose of issuing trust preferred securities. The trust preferred securities accrue and pay distributions periodically at specified annual rates as provided in each trust agreement. The trusts used the net proceeds from each of the offerings to purchase a like amount of junior subordinated debentures (the "debentures") of the Company. The debentures are the sole assets of the trusts. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the obligations of the trusts. The trust preferred securities are mandatorily redeemable upon maturity of the debentures, or upon earlier redemption as provided in the indentures. The Company has the right to redeem the debentures, in whole or in part on or after specific dates, at a redemption price specified in the indentures governing the debentures plus any accrued but unpaid interest to the redemption date. Due to the extended maturity date of the trust preferred securities, they are included in Tier I capital for regulatory purposes, subject to certain limitations.

The following table is a summary of the terms of the current debentures at December 31, 2017:

Issuance Trust	Issuance Date	Maturity Date	Amount Outstanding	Rate Type	Current Rate	Maximum Rate
			(Dollars in thousands)			
CTB Statutory Trust I	07/2001	07/2031	$ 6,702	Variable [1]	4.68%	12.50%
First Louisiana Statutory Trust I	09/2006	12/2036	4,124	Variable [2]	3.39%	16.00%
			$ 10,826			

(1) The trust preferred securities reprice quarterly based on the three-month LIBOR plus 3.30%, with the last reprice date on October 27, 2017.

(2) The trust preferred securities reprice quarterly based on the three-month LIBOR plus 1.80%, with the last reprice date on December 13, 2017.

The amounts of the debentures outstanding varies from the amounts carried on the consolidated balance sheet due to the remaining purchase discount of $1.2 million at both December 31, 2017 and 2016, which was established with the acquisition of the issuer of the First Louisiana Statutory Trust I securities, and which is being amortized over the remaining life of the securities using the interest method.

Note 11 - Derivative Financial Instruments

Risk Management Objective of Using Derivatives

The Company enters into derivative financial instruments to manage risks related to differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments, as well as to manage changes in fair values of some assets which are marked at fair value through the income statement on a recurring basis.

Cash Flow Hedges of Interest Rate Risk

The Company is a party in interest rate swap agreements under which the Company receives interest at a variable rate and pays at a fixed rate. This derivative instrument represented by this swap agreement is designated as a cash flow hedge of the Company's forecasted variable cash flows under a variable-rate term borrowing agreement. During the term of the swap agreement, the effective portion of changes in the fair value of the derivative instrument are recorded in accumulated other comprehensive income and subsequently reclassified into earnings in the periods that the hedged forecasted variable-rate interest payments affected earnings. There was no ineffective portion of the change in fair value of the derivative recognized directly in earnings. The entire swap fair value will be reclassified into earnings before the expiration date.

Derivatives Not Designated as Hedges

Customer Interest Rate Derivative Program

The Company offers certain derivatives products, primarily interest rate swaps, directly to qualified commercial banking customers to facilitate their risk management strategies. In some instances, the Company acts only as an intermediary, simultaneously entering into offsetting agreements with unrelated financial institutions, thereby mitigating its net risk exposure resulting from such transactions and not significantly impacting its results of operations. Because the interest rate derivatives associated with this program do not meet hedge accounting requirements, changes in the fair value of both the customer derivatives and any offsetting derivatives are recognized directly in earnings as a component of noninterest income.

Mortgage Banking Derivatives

The Company enters into certain derivative agreements as part of its mortgage banking and related risk management activities. These agreements include interest rate lock commitments on prospective residential mortgage loans and forward commitments to sell these loans to investors on a mandatory delivery basis. The Company also economically hedges the value of MSRs by entering into a series of commitments to purchase mortgage-backed securities in the future.

Fair Values of Derivative Instruments on the Balance Sheet

The following tables disclose the fair value of derivative instruments in the Company's balance sheets as of December 31, 2017 and 2016, as well as the effect of these derivative instruments on the Company's consolidated statements of income for the years ended December 31, 2017 and 2016:

		Notional Amounts		Fair Values	
		December 31,		December 31,	
	Hedge Type	2017	2016	2017	2016
Derivatives designated as hedging instruments:		(Dollars in thousands)			
Interest rate swaps included in other assets (liabilities)	Cash Flow	$ 10,500	$ 10,500	$ 41	$ (65)
Derivatives not designated as hedging instruments:					
Interest rate swaps included in other assets	NA	$ 132,959	$ 107,115	$ 2,314	$ 3,642
Interest rate swaps included in other liabilities	NA	159,479	151,722	(3,221)	(5,328)
Forward commitments to purchase mortgage-backed securities included in other assets (liabilities)	NA	160,000	330,000	(50)	159
Forward commitments to sell residential mortgage loans included in other assets (liabilities)	NA	57,400	80,229	(49)	662
Interest rate-lock commitments on residential mortgage loans included in other assets	NA	37,072	50,660	791	762
		$ 546,910	$ 719,726	$ (215)	$ (103)

The weighted-average rates paid and received for interest rate swaps outstanding at December 31, 2017, were as follows:

	Weighted-Average	
	Interest Rate Paid	Interest Rate Received
Interest rate swaps:	(Dollars in thousands)	
Cash flow hedges	4.81%	4.19%
Non-hedging interest rate swaps - financial institution counterparties	4.81	3.45
Non-hedging interest rate swaps - customer counterparties	3.54	4.89

Gains and losses recognized on derivative instruments not designated as hedging instruments are as follows:

	Years Ended December 31,	
	2017	2016
Derivatives not designated as hedging instruments:	(Dollars in thousands)	
Amount of loss recognized in mortgage banking revenue	$ (259)	$ (2,570)
Amount of gain recognized in other noninterest income	707	842

Some interest rate swaps included in other assets were subject to a master netting arrangement with the counterparty in all years presented and could be offset against some amounts included in interest rate swaps included in other liabilities. The Company has chosen not to net these exposures in the consolidated balance sheets, and any impact of netting these amounts would not be significant.

At December 31, 2017 and December 31, 2016, the Company had cash collateral on deposit with swap counterparties totaling $7.0 million and $13.3 million, respectively. These amounts are included in interest-bearing deposits in banks in the consolidated balance sheets.

Note 12 - Stock and Incentive Compensation Plans

The Company has granted, and currently has outstanding, stock and incentive compensation awards subject to the provisions of the 2012 Stock Incentive Plan (the "2012 Plan"). Additionally, awards have been issued prior to the establishment of the 2012 Plan, some of which are still outstanding. The 2012 Plan is designed to provide flexibility to the Company regarding its ability to motivate, attract and retain the services of key officers, employees and directors. The 2012 Plan allows the Company to make grants of dividend equivalent rights, incentive stock options, non-qualified stock options, performance unit awards, restricted stock awards, restricted stock units and stock appreciation rights. At December 31, 2017, the maximum number of shares of the Company's common stock available for issuance under the 2012 Plan was 1,137,672 shares.

Share-based compensation cost charged to income for the years ended December 31, 2017 and 2016 is presented below:

	Years ended December 31,	
	2017	2016
	(Dollars in thousands)	
Restricted stock	$ 1,180	$ 1,082
Stock options[(1)]	(30)	465
Total stock compensation expense	$ 1,150	$ 1,547
Related tax benefits recognized in net income	$ 403	$ 541

[(1)] Stock option expense for the year ended December 31, 2017 included expense reversal related to 16,638 stock options forfeited during the period. All remaining stock options became fully vested during the first quarter of 2017.

Stock Option Grants

The Company issues common stock options to select officers and employees through individual agreements and as a result of obligations assumed in association with negotiated mergers. As a result, both incentive and nonqualified stock options have been issued and may be issued in the future. The exercise price of each option varies by agreement and is based on either the fair value of the stock at the date of the grant in circumstances where option grants occurred or based on the previously committed exercise price in the case of options acquired through merger. No outstanding stock option has a term that exceeds twenty years. Vesting periods range from immediate to ten years from the date of grant or merger. The Company recognizes compensation cost for stock option grants over the required service period based upon the grant date fair-value, which is established using a Black-Scholes valuation model. The Black-Scholes valuation model uses assumptions of risk-free interest rate, expected term of stock options, expected stock price volatility and expected dividends. Forfeitures are recognized as they occur. The Company did not grant any stock options during 2017 or 2016.

The table below summarizes the status of the Company's stock options and changes during the years ended December 31, 2017 and 2016. Prior year share amounts have been adjusted to reflect a stock split that occurred on October 5, 2016:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value [1]
Year Ended December 31, 2016	(Dollars in thousands, except share and per share data)			
Outstanding at January 1, 2016	531,922	$ 11.69	6.39	$ 7,322
Exercised	(169,000)	12.34	—	1,633
Expired	(4,284)	12.29	—	—
Outstanding at December 31, 2016	358,638	11.37	7.79	3,844
Year Ended December 31, 2017				
Outstanding at January 1, 2017	358,638	$ 11.37	7.79	$ 3,844
Exercised	(22,500)	12.29	—	304
Forfeited	(16,638)	23.89	—	—
Outstanding at December 31, 2017	319,500	10.65	7.07	4,840
Exercisable at December 31, 2017	319,500	10.65	7.07	4,840

(1) The intrinsic value for stock options is calculated based on the difference between the weighted average exercise price of the underlying awards and the weighted average market price of the Company's common stock calculated over thirty days immediately prior to the reporting date.

During the year ended December 31, 2017, stock options representing 22,500 shares of common stock were exercised, of which, 12,500 options were exercised in a partial cashless exercise. As a result, 7,900 shares were surrendered to cover a portion of the exercise price and recipient's tax liability, and a total of 14,600 common stock shares were issued.

During the year ended December 31, 2016, stock options representing 169,000 shares of common stock were exercised, of which, 109,000 options were exercised as part of a cashless exercise. As a result, 74,929 shares were surrendered to cover the exercise price and recipient's tax liability, and a total of 94,071 common shares were issued.

There were no stock options granted during the years ended December 31, 2017 or 2016.

Restricted Stock Grants

The Company's restricted stock grants are time-vested awards and are granted to the Company's Board of Directors, executives and senior management team. The service period in which time-vested awards are earned ranges from one to five years. Time-vested awards are valued utilizing the fair value of the Company's stock at the grant date. These awards are recognized on the straight-line method over the requisite service period, with forfeitures recognized as they occur.

The following table summarizes the Company's time-vested award activity:

	Years Ended December 31,			
	2017		2016	
	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Nonvested shares, January 1,	84,019	$ 24.22	102,012	$ 24.56
Granted	35,913	25.14	31,477	23.19
Vested	(55,003)	24.39	(43,770)	24.19
Forfeited	(3,636)	24.12	(5,700)	24.69
Nonvested shares, December 31,	61,293	$ 24.61	84,019	$ 24.22

During the year ended December 31, 2017, award recipients surrendered 11,843 shares to cover taxes owed upon the vesting of restricted stock awards. During the year ended December 31, 2016, award recipients surrendered 6,828 shares to cover taxes owed upon the vesting of restricted stock awards.

As of December 31, 2017, there was $1.2 million of total unrecognized compensation cost related to non-vested restricted shares awarded under the Company's stock plan. That cost is expected to be recognized over a weighted average period of 2.03 years.

Note 13 - Employee Stock Ownership Plan

Defined Contribution Benefit Plan

The Company maintains a leveraged Employee Stock Ownership Plan that is a defined contribution benefit plan containing provisions of section 401(k) of the Internal Revenue Service. The ESOP covers substantially all employees who have been employed 90 days and meet certain other requirements and employment classification criteria. Dividends on unallocated ESOP shares are allocated to the outstanding ESOP note payable and dividends paid on allocated shares are paid to participant accounts. Under the provisions of the ESOP, the Company matches 50% of the first 6% of eligible compensation deferred by a participant. Eligible compensation includes salaries, wages, overtime and bonuses, and excludes expense reimbursements and fringe benefits. In addition, the Company may make additional contributions out of current or accumulated net profit of an amount determined by the Company's Board of Directors. Company matching contributions are made 100% in the stock of the Company. The total of the Company's contributions may not exceed limitations set forth in the Plan document or the maximum deductible under the Internal Revenue Code. The ESOP provides participants the right to sell their shares of the Company's stock within the ESOP back to the Company in the event they are no longer employed by the Company. The fair value of the shares by the ESOP at December 31, 2017 and 2016 was $35.0 million and $28.6 million, respectively.

Shares held by the ESOP and allocated to participants were 1,151,030 and 1,107,131 at December 31, 2017 and 2016, respectively. There were no unallocated shares held by the ESOP at December 31, 2017 or 2016.

Although it has not expressed any intention to do so, the Company has the right to terminate the ESOP at any time. The total expense related to the ESOP, including optional contributions, was $1.4 million for both the years ended December 31, 2017 and 2016.

Other Benefit Plans

The Company has established deferred compensation plans for some of its key executives for which deferred compensation liabilities are recorded as a component of accrued expenses and other liabilities in the accompanying consolidated balance sheets. The deferred compensation liability as of December 31, 2017 and December 31, 2016 was $8.3 million and $7.5 million, respectively. The expense recorded for the deferred compensation plan totaled $1.1 million and $1.4 million for the years ended December 31, 2017 and 2016, respectively.

Note 14 - Income Taxes

The provision for income taxes is as follows:

	Years Ended December 31, 2017	Years Ended December 31, 2016
	(Dollars in thousands)	
Federal income taxes:		
Current	$ 715	$ 1,321
Deferred	4,644	1,532
State income taxes:		
Current	167	195
Deferred	287	(132)
Income tax expense	$ 5,813	$ 2,916

The Tax Cuts and Jobs Act, enacted on December 22, 2017, reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. The Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, management is still analyzing certain aspects of the Act and refining the Company's calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The amount recorded as a component of income tax expense related to the remeasurement of our deferred tax balance was $2.0 million. In addition, the Company's estimates may also be affected as management gains a more thorough understanding of the tax law, however such changes are not expected to be significant.

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	Years Ended December 31, 2017		2016	
	Amount	%	Amount	%
	(Dollars in thousands)			
Income taxes computed at statutory rate	$ 7,169	35.00%	$ 5,518	35.00%
Tax exempt revenue, net of nondeductible interest	(1,629)	(7.95)	(1,717)	(10.89)
Low-income housing tax credits, net of amortization	(624)	(3.05)	(936)	(5.94)
Other tax credits, net of add-backs	(1,002)	(4.89)	(1,002)	(6.36)
Bank-owned life insurance income	(221)	(1.08)	(248)	(1.57)
State income taxes, net of federal benefit	186	0.91	40	0.26
Stock-based compensation	(80)	(0.39)	(461)	(2.92)
Deferred tax asset and income tax receivable true-up	—	—	2,468	15.65
Return to provision adjustment	(241)	(1.17)	(1,026)	(6.51)
Deferred tax write-down for enacted tax rate changes	1,972	9.63	—	—
Other	283	1.37	280	1.78
Total income tax expense	$ 5,813	28.38%	$ 2,916	18.50%

As a result of the Tax Cuts and Jobs Act, deferred taxes as of December 31, 2017 are based on the newly enacted U.S. statutory federal income tax rate of 21%. Deferred taxes as of December 31, 2016 are based on the previously enacted U.S. statutory federal income tax rate of 35%. Significant components of deferred tax assets and liabilities are as follows:

	As of December 31,	
	2017	2016
Deferred tax assets:	(Dollars in thousands)	
Credit loss allowances	$ 8,535	$ 18,756
Deferred compensation and share-based compensation	2,286	3,763
Net operating loss carryforwards	1,241	5,108
Credit carryforwards	5,968	3,902
Other	454	309
Gross deferred tax assets	18,484	31,838
Valuation allowance	(797)	(828)
Deferred tax assets net of valuation allowance	$ 17,687	$ 31,010
Deferred tax liabilities:		
Available for sale securities mark to market	$ 879	$ 1,888
Basis difference in premises and equipment	2,082	2,550
Intangible assets	338	734
Mortgage servicing rights	5,225	10,431
Other	137	1,919
Gross deferred tax liabilities	8,661	17,522
Net deferred tax asset	$ 9,026	$ 13,488

During 2016, the Company elected certain tax accounting method changes with the Internal Revenue Service for originated mortgage servicing rights, certain securities, deferred rents and tenant improvement allowances for certain leases. The result of these accounting changes generated tax net operating losses and credit carryforwards for the 2016 tax year. As of December 31, 2017 the Company has utilized all of the net operating losses generated in 2016. At December 31, 2017 the Company has $4.4 million in Federal gross net operating loss carryforwards acquired in previous business combinations expiring between 2023 and 2031, and $7.5 million in state net operating losses. Due to limitations on the amounts of these losses that can be recognized annually, the Company has determined that it is more likely than not that some of these net operating loss carryforwards will expire unused, and has established a $797,000 valuation allowance related to these carryforwards. The Company also has $6.0 million in tax credit carryforwards that expire beginning in 2036.

The Company files a consolidated income tax return in the U.S. federal jurisdiction and various states. With few exceptions, the Company is no longer subject to income tax examinations by tax authorities in these taxing jurisdictions for the years before 2014.

Note 15 - Stockholders' Equity

Stock Issuance

On November 23, 2016, the Company issued 1,954,623 shares of its common stock and 90,832 of its Series D preferred shares in a private placement offering, generating net proceeds of $43.8 million after adjustments for cost of issuance. In connection with a 2012 sale of the Company's common stock, two investors obtained the right to appoint a member of the Company's Board of Directors.

Stock Split

On September 28, 2016, the Company's Board of Directors declared a two-for-one stock split that was paid in the form of a 100% stock dividend on October 5, 2016, (the "payment date") to shareholders of record at the close of business on September 28, 2016. The Company's common stock began trading on a split-adjusted basis on or about October 6, 2016. The stock split increased the Company's total shares of common stock outstanding as of October 5, 2016, from 8,722,665 shares to 17,445,330 shares. All previously reported share and per share data included herein prior to the payment date have been restated to reflect the retroactive effect of this two-for-one split.

Preferred Stock

Senior Non-Cumulative Perpetual Preferred Stock, Series SBLF ("Series SBLF") was issued in July 2011. Series SBLF is a nonvoting class of stock, except in limited circumstances. Dividends on Series SBLF were payable quarterly at a variable annual dividend rate between 1.00% and 7.00% through January 6, 2016, then became payable quarterly at a fixed annual dividend rate of 9.00%. Series SBLF may be redeemed at any time, for $1,000 per share plus any accrued but unpaid dividends, at the option of the Company, subject to regulatory approval. The average annual dividend rate for 2017 and 2016 was 9.00%. Dividends on Series SBLF declared, but paid in the subsequent quarter, were $1.1 million at both December 31, 2017 and December 31, 2016.

Series D Nonvoting Convertible Preferred Stock ("Series D") was first issued in 2012, with additional shares issued in 2016. Series D ranks subordinate to all other classes of preferred stock, holders are entitled to dividends on an equal basis as those of common shares, and holders may convert the shares on a one for one basis to common stock provided after the conversion the holder (with their affiliates) does not own more than 9.99% of common stock (or any class of voting securities issued by the Company). Holders of Series D have no voting rights, except in limited circumstances.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes the after-tax change in unrealized gains and losses on available for sale ("AFS") securities and cash flow hedging activities.

	Unrealized gains on AFS securities	Cash flow hedges	Accumulated other comprehensive income
		(Dollars in thousands)	
Balance at January 1, 2017	$ 3,505	$ (42)	$ 3,463
Net change	(2,225)	69	(2,156)
Balance at December 31, 2017	$ 1,280	$ 27	$ 1,307
Balance at January 1, 2016	$ 5,289	$ (105)	$ 5,184
Net change	(1,784)	63	(1,721)
Balance at December 31, 2016	$ 3,505	$ (42)	$ 3,463

Note 16 - Regulatory Capital Matters

Regulatory Capital Matters

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Company is subject to the Basel III regulatory capital framework (the "Basel III Capital Rules"). Starting in January 2016, the implementation of the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases and to pay discretionary bonuses to executive officers.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, CET1 and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2017 and 2016, the Company and the Bank meet all capital adequacy requirements to which they are subject, including the capital buffer requirement.

As of December 31, 2017 and 2016, the Bank’s capital ratios exceeded those levels necessary to be categorized as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized," the Bank must maintain minimum total risk based, CET1, Tier 1 risk based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank’s category.

The actual capital amounts and ratios of the Company and Bank as of December 31, 2017 and December 31, 2016, are presented in the following table:

	Actual		Minimum Capital Required - Basel III Fully Phased-In		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017			(Dollars in thousands)			
Common Equity Tier 1 to Risk-Weighted Assets						
Origin Bancorp, Inc.	$ 360,069	9.35%	$ 269,570	7.00%	N/A	N/A
Origin Bank	416,175	10.82	269,244	7.00	250,012	6.50%
Tier I Capital to Risk-Weighted Assets						
Origin Bancorp, Inc.	433,338	11.25	327,411	8.50	N/A	N/A
Origin Bank	416,175	10.82	326,940	8.50	307,708	8.00
Total Capital to Risk-Weighted Assets						
Origin Bancorp, Inc.	472,437	12.26	404,616	10.50	N/A	N/A
Origin Bank	455,274	11.84	403,748	10.50	384,522	10.00
Leverage Ratio						
Origin Bancorp, Inc.	433,338	10.53	164,611	4.00	N/A	N/A
Origin Bank	416,175	10.13	164,334	4.00	205,418	5.00
December 31, 2016						
Common Equity Tier 1 to Risk-Weighted Assets						
Origin Bancorp, Inc.	$ 351,697	9.42%	$ 261,346	7.00%	N/A	N/A
Origin Bank	407,412	10.94	260,684	7.00	242,064	6.50%
Tier I Capital to Risk-Weighted Assets						
Origin Bancorp, Inc.	422,952	11.33	317,307	8.50	N/A	N/A
Origin Bank	407,412	10.94	316,545	8.50	297,925	8.00
Total Capital to Risk-Weighted Assets						
Origin Bancorp, Inc.	469,745	12.58	392,077	10.50	N/A	N/A
Origin Bank	454,070	12.19	391,119	10.50	372,494	10.00
Leverage Ratio						
Origin Bancorp, Inc.	422,952	10.67	158,706	4.00	N/A	N/A
Origin Bank	407,412	10.31	158,065	4.00	197,581	5.00

In the ordinary course of business, Origin Bancorp, Inc. is dependent upon dividends from Origin Bank to provide funds for the payment of dividends to stockholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of Origin Bank to fall below specified minimum levels. Approval is also required if dividends declared and paid exceed the Bank's year-to-date net income combined with the retained net income for the preceding year. Management believes under the foregoing dividend restrictions and while maintaining its “well capitalized” status, at December 31, 2017, Origin Bank could pay aggregate dividends of up to $14.5 million to Origin Bancorp, Inc. without prior regulatory approval.

Note 17 - Commitments and Contingencies

Credit Related Commitments

In the normal course of business, the Company enters into financial instruments, such as commitments to extend credit and letters of credit, to meet the financing needs of its customers. Such instruments are not reflected in the accompanying consolidated financial statements until they are funded, although they expose the Company to varying degrees of credit risk and interest rate risk in much the same way as funded loans.

Commitments to extend credit include revolving commercial credit lines, nonrevolving loan commitments issued mainly to finance the acquisition and development or construction of real property or equipment, and credit card and personal credit lines. The availability of funds under commercial credit lines and loan commitments generally depends on whether the borrower continues to meet credit standards established in the underlying contract and has not violated other contractual conditions. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Credit card and personal credit lines are generally subject to cancellation if the borrower's credit quality deteriorates. A number of commercial and personal credit lines are used only partially or, in some cases, not at all before they expire, and the total commitment amounts do not necessarily represent future cash requirements of the Company.

A substantial majority of the letters of credit are standby agreements that obligate the Company to fulfill a customer's financial commitments to a third party if the customer is unable to perform. The Company issues standby letters of credit primarily to provide credit enhancement to its customers' other commercial or public financing arrangements and to help them demonstrate financial capacity to vendors of essential goods and services.

The contract amounts of these instruments reflect the Company's exposure to credit risk. The Company undertakes the same credit evaluation in making loan commitments and assuming conditional obligations as it does for on-balance sheet instruments and may require collateral or other credit support. These off-balance sheet financial instruments are summarized below:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Commitments to extend credit	$ 1,068,088	$ 988,174
Standby letters of credit	79,893	82,878

In addition to the above, the Company guarantees the credit card debt of certain customers to the merchant bank that issues the credit cards. These guarantees are in place for as long as the guaranteed credit card is open. At December 31, 2017 and 2016, these credit card guarantees totaled $1.0 million and $963,000, respectively. This amount represents the maximum potential amount of future payments under the guarantee, which the Company is responsible for in the event of customer non-payment.

At December 31, 2017 and 2016, the Company had FHLB letters of credit totaling $185,000 and $120,000, respectively, available to secure public deposits, and for other purposes required or permitted by law.

Management establishes an asset-specific allowance for lending-related commitments that are considered impaired and computes a formula-based allowance for performing consumer and commercial lending-related commitments. These are computed using a methodology similar to that used for the commercial loan portfolio, modified for expected maturities and probabilities of drawdown. The reserve for lending-related commitments was $2.0 million and $1.9 million at December 31, 2017 and 2016, respectively, and is included in other liabilities in the accompanying consolidated balance sheets.

Loss Contingencies

On January 23, 2017, the ResCap Liquidating Trust, or ResCap, as successor to Residential Funding Company, LLC f/k/a Residential Funding Corporation, or RFC, filed a complaint against the Bank, as successor to Cimarron Mortgage Company, or Cimarron, a former residential mortgage lender purchased by the Bank in 2011 and merged into the Bank in 2013, in the United States District Court for the District of Minnesota. The Complaint included a claim for damages against the Bank arising out of a guaranty in which the Bank, as successor to Cimarron, guaranteed Cimarron's full performance under the contract governing the sale of mortgage loans to RFC. The Company entered into a Settlement and Release Agreement on November 6, 2017 with the RFC parties with respect to the ResCap Litigation. Under the agreement, the Company agreed to pay $10.0 million to fully resolve all claims by the RFC parties, and to avoid the further costs, disruption, and distraction of defending the ResCap Litigation. The Company recognized the $10.0 million of expense during the third quarter 2017, and paid all amounts due during the fourth quarter 2017.

From time to time the Company is also party to various legal proceedings arising in the ordinary course of business. Management does not believe that loss contingencies, if any, arising from any such pending litigation and regulatory matters will have a material adverse effect on the consolidated financial position or liquidity of the Company.

Note 18 - Related Party Transactions

Loans to executive officers, directors, and their affiliates at December 31, 2017 and 2016 were as follows:

	2017	2016
	(Dollars in thousands)	
Balance, beginning of year	$ 11,754	$ 10,951
Advances	4,354	3,017
Principal repayments	(6,174)	(2,214)
Balance, end of year	$ 9,934	$ 11,754
Commitments to extend credit	$ 12,355	$ 11,250

None of the above loans were considered non-performing or potential problem loans. These loans were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability.

Deposits from related parties held by the Company at December 31, 2017 and 2016, amounted to $38.0 million and $44.9 million, respectively.

From time to time the Company engages related parties for construction of certain properties and landscaping services. The total value paid for such services with the related parties and their affiliates was $1.5 million and $2.4 million, for the years ended December 31, 2017 and 2016, respectively.

Note 19 - Condensed Parent Company Only Financial Statements

Financial statements of Origin Bancorp, Inc. (parent company only) are as follows:

Condensed Balance Sheets	**As of December 31,**	
	2017	**2016**
Assets	(Dollars in thousands)	
Cash and cash equivalents	$ 10,566	$ 7,550
Investment in affiliates/subsidiaries	450,598	445,041
Other assets	5,500	7,017
Total assets	$ 466,664	$ 459,608
Liabilities		
Junior subordinated debentures	$ 9,619	$ 9,596
Accrued expenses and other liabilities	1,703	1,355
Total liabilities	11,322	10,951
Stockholders' Equity		
Preferred stock	65,258	65,258
Common stock	97,594	97,419
Additional paid-in capital	146,061	145,068
Retained earnings	145,122	137,449
Accumulated other comprehensive income	1,307	3,463
Total stockholders' equity	455,342	448,657
Total liabilities and stockholders' equity	$ 466,664	$ 459,608

Condensed Statements of Income	**Year ended December 31,**	
	2017	**2016**
Income:	(Dollars in thousands)	
Dividends from subsidiaries	$ 8,000	$ 5,625
Other	41	11
Total income	8,041	5,636
Expenses:		
Salaries and employee benefits	433	600
Other	1,384	1,617
Total expenses	1,817	2,217
Income before income taxes and equity in undistributed net income of subsidiaries	6,224	3,419
Income tax benefit	477	1,281
Income before equity in undistributed net income of subsidiaries	6,701	4,700
Equity in undistributed net income of subsidiaries	7,968	8,150
Net income	$ 14,669	$ 12,850

Condensed Statements of Cash Flows	Year ended December 31, 2017	2016
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 14,669	$ 12,850
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	11	9
Equity in undistributed net income of subsidiaries	(7,968)	(8,150)
Amortization of subordinated debentures discount	23	21
Stock compensation	78	65
Other, net	5,488	215
Net cash provided by operating activities	12,301	5,010
Cash flows from investing activities:		
Capital contributed to subsidiary	—	(37,808)
Net purchases of non-marketable equity securities held in other financial institutions	(2,065)	—
Net cash used in investing activities	(2,065)	(37,808)
Cash flows from financing activities:		
Net decrease in short-term borrowings	—	(3,600)
Dividends paid	(6,996)	(5,764)
Taxes paid related to net share settlement of equity awards	(410)	(739)
Cash received on exercise of stock options	186	737
Proceeds from issuance of common stock	—	41,809
Proceeds from issuance of preferred stock	—	1,998
Net cash (used in) provided by financing activities	(7,220)	34,441
Net increase in cash and cash equivalents	3,016	1,643
Cash and cash equivalents at beginning of year	7,550	5,907
Cash and cash equivalents at end of year	$ 10,566	$ 7,550

Note 20 - Summary of Quarterly Financial Statements (Unaudited)

The following tables present selected unaudited data from the Company's consolidated quarterly statements of income for the years ended December 31, 2017 and 2016:

	Quarters Ended - 2017			
	December 31	September 30	June 30	March 31
	(Dollars in thousands, except per share data)			
Total interest income	$ 40,408	$ 39,614	$ 37,293	$ 35,278
Total interest expense	6,190	5,746	5,376	4,976
Net interest income	34,218	33,868	31,917	30,302
Provision for credit losses	242	3,327	1,953	2,814
Net interest income after provision for credit losses	33,976	30,541	29,964	27,488
Non-interest income	8,715	5,041	5,306	10,125
Non-interest expense	31,771	40,443	30,674	27,786
Income (loss) before income taxes	10,920	(4,861)	4,596	9,827
Income tax expense (benefit)	5,148	(2,688)	773	2,580
Net income (loss)	5,772	(2,173)	3,823	7,247
Less preferred stock dividends	1,116	1,115	1,115	1,115
Less income allocated to participating stockholders[(1)]	194	3	103	267
Net income (loss) available to common stockholders[(1)]	$ 4,462	$ (3,291)	$ 2,605	$ 5,865
Basic earnings (loss) per common share[(1)]	$ 0.23	$ (0.17)	$ 0.13	$ 0.30
Diluted earnings (loss) per common share[(1)]	0.23	(0.17)	0.13	0.30

(1) Due to the methodology of how losses are allocated under the two-class method, the sum of the quarterly periods will not agree to the year-to-date total presented in the consolidated statements of income for the year ended December 31, 2017.

	Quarters Ended - 2016			
	December 31	September 30	June 30	March 31
	(Dollars in thousands, except per share data)			
Total interest income	$ 34,895	$ 35,647	$ 34,758	$ 33,851
Total interest expense	4,786	4,657	4,517	4,508
Net interest income	30,109	30,990	30,241	29,343
Provision for credit losses	9,824	2,734	38	17,482
Net interest income after provision for credit losses	20,285	28,256	30,203	11,861
Non-interest income	8,593	12,106	8,726	12,443
Non-interest expense	30,107	28,434	29,207	28,959
(Loss) income before income taxes	(1,229)	11,928	9,722	(4,655)
Income tax (benefit) expense	(1,850)	4,814	2,503	(2,551)
Net income (loss)	621	7,114	7,219	(2,104)
Less preferred stock dividends	1,115	1,112	1,112	1,059
Less income allocated to participating stockholders[(1)]	3	272	277	3
Net (loss) income available to common stockholders[(1)]	$ (497)	$ 5,730	$ 5,830	$ (3,166)
Basic (loss) earnings per common share[(1)]	$ (0.03)	$ 0.33	$ 0.34	$ (0.18)
Diluted (loss) earnings per common share[(1)]	(0.03)	0.33	0.33	(0.18)

(1) Due to the methodology of how losses are allocated under the two-class method, the sum of the quarterly periods will not agree to the year-to-date total presented in the consolidated statements of income for the year ended December 31, 2016.

Note 21 - Subsequent Events

The Company evaluated events from the date of the consolidated financial statements on December 31, 2017 through the issuance of those consolidated financial statements included in this annual report dated March 2, 2018.