

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____.
Commission File Number: 001-37886

CAPSTAR FINANCIAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Tennessee
(State or other jurisdiction of
incorporation or organization)

1201 Demonbreun Street, Suite 700
Nashville, Tennessee
(Address of principal executive office)

81-1527911
(IRS Employer
Identification No.)

37203
(zip code)

(615) 732-6400
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input checked="" type="checkbox"/>

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Shares outstanding as of April 30, 2018

Common Stock, par value \$1.00 per share	11,660,457
Non-voting Common Stock, par value \$1.00 per share	132,561

CAPSTAR FINANCIAL HOLDINGS, INC.
QUARTERLY REPORT ON FORM 10-Q
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TERMINOLOGY

The terms “we,” “our,” “us,” “the Company,” “CSTR” and “CapStar” that appear in this Quarterly Report on Form 10-Q (this “Report”) refer to CapStar Financial Holdings, Inc. and its wholly-owned subsidiary, CapStar Bank. The terms “CapStar Bank,” “the Bank” and “our Bank” that appear in this Report refer to CapStar Bank.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “continue,” “will,” “anticipate,” “seek,” “aspire,” “roadmap,” “achieve,” “estimate,” “intend,” “plan,” “project,” “projection,” “forecast,” “goal,” “target,” “would,” and “outlook,” or the negative version of those words or other comparable words of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. The inclusion of these forward-looking statements should not be regarded as a representation by us or any other person that such expectations, estimates and projections will be achieved. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date of this Report, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

Economic conditions (including interest rate environment, government economic and monetary policies, the strength of global financial markets and inflation and deflation) that impact the financial services industry as a whole and/or our business; the concentration of our business in the Nashville metropolitan statistical area (“MSA”) and the effect of changes in the economic, political and environmental conditions on this market; increased competition in the financial services industry, locally, regionally or nationally, which may adversely affect pricing and the other terms offered to our clients; our dependence on our management team and board of directors and changes in our management and board composition; our reputation in the community; our ability to execute our strategy and to achieve loan and deposit growth through organic growth and strategic acquisitions; credit risks related to the size of our borrowers and our ability to adequately identify, assess and limit our credit risk; our concentration of large loans to a small number of borrowers; the significant portion of our loan portfolio that originated during the past two years and therefore may less reliably predict future collectability than older loans; the adequacy of reserves (including our allowance for loan losses) and the appropriateness of our methodology for calculating such reserves; non-performing loans and leases; non-performing assets; charge-offs, non-accruals, troubled-debt restructurings, impairments and other credit issues; adverse trends in the healthcare service industry, which is an integral component of our market’s economy; our management of risks inherent in our commercial real estate loan portfolio, and the risk of a prolonged downturn in the real estate market, which could impair the value of our collateral and our ability to sell collateral upon any foreclosure; governmental legislation and regulation, including changes in the nature and timing of the adoption and effectiveness of new requirements under the Dodd-Frank Act of 2010, as amended, the Tax Cuts and Jobs Act, Basel guidelines, capital requirements, accounting regulation or standards and other applicable laws and regulations; the loss of large depositor relationships, which could force us to fund our business through more expensive and less stable sources; operational and liquidity risks associated with our business, including liquidity risks inherent in correspondent banking; volatility in interest rates and our overall management of interest rate risk, including managing the sensitivity of our interest-earning assets and interest-bearing liabilities to interest rates, and the impact to our earnings from a change in interest rates; the potential for our Bank’s regulatory lending limits and other factors related to our size to restrict our growth and prevent us from effectively implementing our business strategy; strategic acquisitions we may undertake to achieve our goals; the sufficiency of our capital, including sources of capital and the extent to which we may be required to raise additional capital to meet our goals; fluctuations to the fair value of our investment securities that are beyond our control; deterioration in the fiscal position of the U.S. government and downgrades in Treasury and federal agency securities; potential exposure to fraud, negligence, computer theft and cyber-crime; the adequacy of our risk management framework; our dependence on our information technology and telecommunications systems and the potential for any systems failures or interruptions; our dependence upon outside third parties for the processing and handling of our records and data; our ability to adapt to technological change; the financial soundness of other financial institutions; our exposure to environmental liability risk associated with our lending activities; our engagement in derivative transactions; our involvement from time to time in legal proceedings and examinations and remedial actions by regulators; the susceptibility of our market to natural disasters and acts of God; and the effectiveness of our internal controls over financial reporting and our ability to remediate any future material weakness in our internal controls over financial reporting.

The foregoing factors should not be construed as exhaustive and should be read in conjunction with those factors that are detailed from time to time in the Company's periodic and current reports filed with the Securities and Exchange Commission (the "SEC"), including those factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 under the heading "Item 1A. Risk Factors" and in the Company's Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from our forward-looking statements. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date of this Report, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law. New risks and uncertainties may emerge from time to time, and it is not possible for us to predict their occurrence or how they will affect us.

PART I. FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements

CAPSTAR FINANCIAL HOLDINGS, INC. & SUBSIDIARY
Consolidated Balance Sheets
(Dollars in thousands, except share data)

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Cash and due from banks	\$ 10,980	\$ 9,506
Interest-bearing deposits in financial institutions	34,629	68,572
Federal funds sold	5,516	4,719
Total cash and cash equivalents	<u>51,125</u>	<u>82,797</u>
Securities available-for-sale, at fair value	189,580	192,621
Securities held-to-maturity, fair value of \$3,804, and \$3,848 at March 31, 2018 and December 31, 2017, respectively	3,752	3,759
Loans held for sale	62,286	74,093
Loans	1,031,821	947,537
Less allowance for loan losses	(14,563)	(13,721)
Loans, net	<u>1,017,258</u>	<u>933,816</u>
Premises and equipment, net	5,856	5,884
Restricted equity securities	8,809	8,806
Accrued interest receivable	4,058	4,084
Goodwill	6,219	6,219
Core deposit intangible	13	23
Other assets	33,789	32,327
Total assets	<u>\$ 1,382,745</u>	<u>\$ 1,344,429</u>
Liabilities and Shareholders' Equity		
Deposits:		
Non-interest-bearing	\$ 258,161	\$ 301,742
Interest-bearing	295,495	274,681
Savings and money market accounts	403,216	367,246
Time	170,681	176,197
Total deposits	<u>1,127,553</u>	<u>1,119,866</u>
Federal Home Loan Bank advances	100,000	70,000
Other liabilities	6,499	7,617
Total liabilities	<u>1,234,052</u>	<u>1,197,483</u>
Shareholders' equity:		
Series A convertible preferred stock, \$1 par value; 5,000,000 shares authorized; 878,049 shares issued and outstanding at March 31, 2018 and December 31, 2017	878	878
Common stock, voting, \$1 par value; 20,000,000 shares authorized; 11,640,797 and 11,449,465 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	11,641	11,450
Common stock, nonvoting, \$1 par value; 5,000,000 shares authorized; 132,561 shares issued and outstanding at March 31, 2018 and December 31, 2017	133	133
Additional paid-in capital	119,147	118,120
Retained earnings	22,087	18,892
Accumulated other comprehensive loss, net of income tax	(5,193)	(2,527)
Total shareholders' equity	<u>148,693</u>	<u>146,946</u>
Total liabilities and shareholders' equity	<u>\$ 1,382,745</u>	<u>\$ 1,344,429</u>

See accompanying notes to consolidated financial statements (unaudited).

CAPSTAR FINANCIAL HOLDINGS, INC. & SUBSIDIARY
Consolidated Statements of Income (Unaudited)
(Dollars in thousands, except share data)

	Three Months Ended	
	March 31,	
	2018	2017
Interest income:		
Loans, including fees	\$ 12,234	\$ 10,467
Securities:		
Taxable	876	1,003
Tax-exempt	284	326
Federal funds sold	20	2
Restricted equity securities	129	76
Interest-bearing deposits in financial institutions	201	105
Total interest income	<u>13,744</u>	<u>11,979</u>
Interest expense:		
Interest-bearing deposits	754	617
Savings and money market accounts	1,005	815
Time deposits	649	471
Federal funds purchased	1	4
Federal Home Loan Bank advances	489	140
Total interest expense	<u>2,898</u>	<u>2,047</u>
Net interest income	<u>10,846</u>	<u>9,932</u>
Provision for loan losses	678	3,405
Net interest income after provision for loan losses	<u>10,168</u>	<u>6,527</u>
Noninterest income:		
Treasury management and other deposit service charges	402	329
Loan commitment fees	387	236
Net gain (loss) on sale of securities	—	(6)
Tri-Net fees	528	84
Mortgage banking income	1,313	1,132
Other noninterest income	460	359
Total noninterest income	<u>3,090</u>	<u>2,134</u>
Noninterest expense:		
Salaries and employee benefits	6,257	5,086
Data processing and software	798	621
Professional fees	474	365
Occupancy	521	449
Equipment	539	496
Regulatory fees	203	307
Other operating	788	1,052
Total noninterest expense	<u>9,580</u>	<u>8,376</u>
Income before income taxes	<u>3,678</u>	<u>285</u>
Income tax expense (benefit)	483	(47)
Net income	<u>\$ 3,195</u>	<u>\$ 332</u>
Per share information:		
Basic net income per share of common stock	<u>\$ 0.27</u>	<u>\$ 0.03</u>
Diluted net income per share of common stock	<u>\$ 0.25</u>	<u>\$ 0.03</u>
Weighted average shares outstanding:		
Basic	<u>11,664,467</u>	<u>11,210,948</u>
Diluted	<u>12,975,981</u>	<u>12,784,117</u>

See accompanying notes to consolidated financial statements (unaudited).

CAPSTAR FINANCIAL HOLDINGS, INC. & SUBSIDIARY
Consolidated Statements of Comprehensive Income (Unaudited)
(Dollars in thousands)

	Three Months Ended	
	March 31,	
	2018	2017
Net income	\$ 3,195	\$ 332
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available-for-sale:		
Unrealized holding gains (losses) arising during the period	(4,354)	575
Reclassification adjustment for (gains) losses included in net income	—	6
Tax effect	1,138	(222)
Net of tax	(3,216)	359
Unrealized losses on securities transferred to held-to-maturity:		
Reclassification adjustment for losses included in net income	14	42
Tax effect	(4)	(16)
Net of tax	10	26
Unrealized gains (losses) on cash flow hedges:		
Unrealized holding gains (losses) arising during the period	424	(1)
Reclassification adjustment for losses included in net income	250	154
Tax effect	(134)	—
Net of tax	540	153
Other comprehensive income (loss)	(2,666)	538
Comprehensive income	\$ 529	\$ 870

See accompanying notes to consolidated financial statements (unaudited).

CAPSTAR FINANCIAL HOLDINGS, INC. & SUBSIDIARY
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(Dollars in thousands, except share data)

	Preferred stock	Common Stock, voting		Common Stock, nonvoting		Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
		Shares	Amount	Shares	Amount				
Balance December 31, 2016	\$ 878	11,204,515	\$ 11,205	—	\$ —	\$ 116,143	\$ 17,132	\$ (6,151)	\$ 139,207
Issuance of restricted common stock, net of forfeitures and withholdings to satisfy employee tax obligations	—	(2,054)	(2)	—	—	(187)	—	—	(189)
Stock-based compensation expense	—	—	—	—	—	236	—	—	236
Exercise of employee common stock options, net of withholdings to satisfy employee tax obligations	—	9,367	9	—	—	13	—	—	22
Exercise of common stock warrants	—	6,500	6	—	—	59	—	—	65
Net income	—	—	—	—	—	—	332	—	332
Other comprehensive income	—	—	—	—	—	—	—	538	538
Balance March 31, 2017	\$ 878	11,218,328	\$ 11,218	—	\$ —	\$ 116,264	\$ 17,464	\$ (5,613)	\$ 140,211
Balance December 31, 2017	\$ 878	11,449,465	\$ 11,450	132,561	\$ 133	\$ 118,120	\$ 18,892	\$ (2,527)	\$ 146,946
Issuance of restricted common stock, net of forfeitures and withholdings to satisfy employee tax obligations	—	24,729	25	—	—	(354)	—	—	(329)
Stock-based compensation expense	—	—	—	—	—	305	—	—	305
Exercise of employee common stock options, net of withholdings to satisfy employee tax obligations	—	61,822	62	—	—	238	—	—	300
Exercise of common stock warrants	—	104,781	104	—	—	838	—	—	942
Net income	—	—	—	—	—	—	3,195	—	3,195
Other comprehensive income (loss)	—	—	—	—	—	—	—	(2,666)	(2,666)
Balance March 31, 2018	\$ 878	11,640,797	\$ 11,641	132,561	\$ 133	\$ 119,147	\$ 22,087	\$ (5,193)	\$ 148,693

See accompanying notes to consolidated financial statements (unaudited).

CAPSTAR FINANCIAL HOLDINGS, INC. & SUBSIDIARY
Consolidated Statements of Cash Flows (Unaudited)
(Dollars in thousands)

	Three Months Ended	
	March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 3,195	\$ 332
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	678	3,405
Accretion of discounts on acquired loans and deferred fees	(171)	(159)
Depreciation and amortization	104	107
Net amortization of premiums on investment securities	289	358
Securities (gains) losses, net	—	6
Mortgage banking income	(1,313)	(1,132)
Tri-Net fees	(528)	(84)
Net loss on disposal of premises and equipment	—	137
Stock-based compensation	305	236
Deferred income tax expense (benefit)	255	(744)
Origination of loans held for sale	(123,853)	(93,162)
Proceeds from loans held for sale	137,501	101,118
Net increase in accrued interest receivable and other assets	(691)	(1,331)
Net decrease in accrued interest payable and other liabilities	(444)	(2,120)
Net cash provided by operating activities	<u>15,327</u>	<u>6,967</u>
Cash flows from investing activities:		
Activities in securities available-for-sale:		
Purchases	(8,639)	(11,754)
Sales	2,014	645
Maturities, prepayments and calls	5,044	5,186
Activities in securities held-to-maturity:		
Maturities, prepayments and calls	—	29
Purchase of restricted equity securities	(3)	(513)
Net increase in loans	(83,949)	(69,065)
Purchase of premises and equipment	(66)	(742)
Proceeds from the sale of premises and equipment	—	3
Net cash used in investing activities	<u>(85,599)</u>	<u>(76,211)</u>
Cash flows from financing activities:		
Net increase in deposits	7,687	29,273
Proceeds from Federal Home Loan Bank advances	30,000	20,000
Exercise of common stock options and warrants, net of repurchase of restricted shares	913	(101)
Net cash provided by financing activities	<u>38,600</u>	<u>49,172</u>
Net decrease in cash and cash equivalents	(31,672)	(20,072)
Cash and cash equivalents at beginning of period	82,797	80,111
Cash and cash equivalents at end of period	<u>\$ 51,125</u>	<u>\$ 60,039</u>
Supplemental disclosures of cash paid:		
Interest paid	\$ 2,888	\$ 2,023
Income taxes	264	—
Supplemental disclosures of noncash transactions:		
Loans charged off to the allowance for loan losses	\$ 160	\$ 1,124

See accompanying notes to consolidated financial statements (unaudited).

CAPSTAR FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements as of and for the period ended March 31, 2018 include CapStar Financial Holdings, Inc. and its wholly owned subsidiary, CapStar Bank (the “Bank”, together referred to as the “Company”). Significant intercompany transactions and accounts are eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and do not include all information and footnotes required by U.S. generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. These unaudited consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and related notes appearing in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, determination of impairment of intangible assets, including goodwill, the valuation of our investment portfolio, deferred tax assets and estimated liabilities. There have been no significant changes to the Company’s critical accounting policies as disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Subsequent Events

Accounting Standards Codification (“ASC”) 855, Subsequent Events, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Company evaluated all events or transactions that occurred after March 31, 2018 through the date of the issued financial statements.

NOTE 2 – SECURITIES

The amortized cost and fair value of securities available-for-sale and held-to-maturity at March 31, 2018 and December 31, 2017 are summarized as follows (in thousands):

	March 31, 2018				December 31, 2017			
	Amortized Cost	Gross unrealized gains	Gross unrealized (losses)	Estimated fair value	Amortized Cost	Gross unrealized gains	Gross unrealized (losses)	Estimated fair value
Securities available-for-sale:								
U. S. government agency securities	\$ 11,251	\$ —	\$ (407)	\$ 10,844	\$ 11,433	\$ 12	\$ (168)	\$ 11,277
State and municipal securities	49,234	442	(1,461)	48,215	51,790	1,430	(222)	52,998
Mortgage-backed securities	107,832	—	(3,540)	104,292	108,236	40	(1,714)	106,562
Asset-backed securities	16,478	1	(123)	16,356	16,575	—	(198)	16,377
Other debt securities	9,878	70	(75)	9,873	5,326	81	—	5,407
Total	<u>\$ 194,673</u>	<u>\$ 513</u>	<u>\$ (5,606)</u>	<u>\$ 189,580</u>	<u>\$ 193,360</u>	<u>\$ 1,563</u>	<u>\$ (2,302)</u>	<u>\$ 192,621</u>
Securities held-to-maturity:								
State and municipal securities	\$ 3,752	\$ 56	\$ (4)	\$ 3,804	\$ 3,759	\$ 89	\$ —	\$ 3,848
Total	<u>\$ 3,752</u>	<u>\$ 56</u>	<u>\$ (4)</u>	<u>\$ 3,804</u>	<u>\$ 3,759</u>	<u>\$ 89</u>	<u>\$ —</u>	<u>\$ 3,848</u>

Security fair values are established by an independent pricing service as of the dates indicated. The difference between amortized cost and fair value reflects current interest rates and represents the potential gain (loss) had the portfolio been liquidated on those dates. Security gains (losses) are realized only in the event of dispositions prior to maturity or other-than-temporary impairment. Securities

with unrealized losses as of March 31, 2018 and December 31, 2017, and the length of time they were in continuous loss positions as of such dates are as follows (in thousands):

	Less than 12 months		12 months or more		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
March 31, 2018						
U. S. government agency securities	\$ 8,969	\$ (291)	\$ 1,875	\$ (116)	\$ 10,844	\$ (407)
State and municipal securities	26,786	(1,081)	4,518	(384)	31,304	(1,465)
Mortgage-backed securities	37,117	(913)	67,174	(2,627)	104,291	(3,540)
Asset-backed securities	—	—	12,589	(123)	12,589	(123)
Other debt securities	5,503	(75)	—	—	5,503	(75)
Total temporarily impaired securities	<u>\$ 78,375</u>	<u>\$ (2,360)</u>	<u>\$ 86,156</u>	<u>\$ (3,250)</u>	<u>\$ 164,531</u>	<u>\$ (5,610)</u>
December 31, 2017						
U. S. government agency securities	\$ 7,375	\$ (90)	\$ 1,912	\$ (78)	\$ 9,287	\$ (168)
State and municipal securities	7,490	(106)	5,798	(116)	13,288	(222)
Mortgage-backed securities	29,832	(322)	67,813	(1,392)	97,645	(1,714)
Asset-backed securities	—	—	16,377	(198)	16,377	(198)
Other debt securities	—	—	—	—	—	—
Total temporarily impaired securities	<u>\$ 44,697</u>	<u>\$ (518)</u>	<u>\$ 91,900</u>	<u>\$ (1,784)</u>	<u>\$ 136,597</u>	<u>\$ (2,302)</u>

As noted in the table above, as of March 31, 2018, the Company had unrealized losses of \$5.6 million in its investment securities portfolio. The unrealized losses associated with these investment securities are driven by changes in interest rates and are recorded as a component of equity. These investment securities will continue to be monitored as a part of our ongoing impairment analysis. Management evaluates the financial performance of the issuers on a quarterly basis to determine if it is probable that the issuers can make all contractual principal and interest payments. If a shortfall in future cash flows is identified, a credit loss will be deemed to have occurred and will be recognized as a charge to earnings and a new cost basis for the security will be established.

Because the Company currently does not intend to sell any investment securities that have an unrealized loss at March 31, 2018, and it is not more-likely-than-not that we will be required to sell these investment securities before recovery of their amortized cost bases, which may be at maturity, we do not consider these securities to be other-than-temporarily impaired at March 31, 2018.

Securities with a carrying value of \$123.6 million at March 31, 2018 were pledged to collateralize public deposits, derivative positions and Federal Home Loan Bank advances.

Results from sales of debt and equity securities were as follows (in thousands):

	Three Months Ended	Three Months Ended
	March 31, 2018	March 31, 2017
Proceeds	\$ 2,014	\$ 645
Gross gains	70	—
Gross losses	(70)	(6)

The amortized cost and fair value of securities at March 31, 2018, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Available-for-sale		Held-to-maturity	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Due in less than one year	\$ 2,706	\$ 2,729	\$ —	\$ —
Due one to five years	19,092	19,293	2,382	2,403
Due five to ten years	30,732	30,087	1,370	1,401
Due beyond ten years	17,833	16,823	—	—
Mortgage-backed securities	107,832	104,292	—	—
Asset-backed securities	16,478	16,356	—	—
	<u>\$ 194,673</u>	<u>\$ 189,580</u>	<u>\$ 3,752</u>	<u>\$ 3,804</u>

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the loan portfolio as of March 31, 2018 and December 31, 2017 follows (in thousands):

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Commercial real estate	\$ 389,757	\$ 350,622
Consumer real estate	104,224	102,581
Construction and land development	91,953	82,586
Commercial and industrial	408,353	373,248
Consumer	9,524	6,862
Other	28,750	31,983
Total	<u>1,032,561</u>	<u>947,882</u>
Less net unearned income	(740)	(345)
	<u>1,031,821</u>	<u>947,537</u>
Allowance for loan and lease losses	(14,563)	(13,721)
	<u>\$ 1,017,258</u>	<u>\$ 933,816</u>

The adequacy of the allowance for loan losses (“ALL”) is assessed at the end of each quarter. The ALL includes a specific component related to loans that are individually evaluated for impairment and a general component related to loans that are segregated into homogenous pools and collectively evaluated for impairment. The ALL factors applied to these pools are an estimate of probable incurred losses based on management’s evaluation of historical net losses from loans with similar characteristics, which are adjusted by management to reflect current events, trends, and conditions. The adjustments include consideration of the following: changes in lending policies and procedures, economic conditions, nature and volume of the portfolio, experience of lending management, volume and severity of past due loans, quality of the loan review system, value of underlying collateral for collateral dependent loans, concentrations, and other external factors.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes all commercial loans, and consumer relationships with an outstanding balance greater than \$500,000, individually and assigns each loan a risk rating. This analysis is performed on a continual basis by the relationship managers and credit department personnel. On at least an annual basis an independent party performs a formal credit risk review of a sample of the loan portfolio. Among other things, this review assesses the appropriateness of the loan's risk rating. The Company uses the following definitions for risk ratings:

Special Mention – A special mention asset possesses deficiencies or potential weaknesses deserving of management's attention. If uncorrected, such weaknesses or deficiencies may expose the Company to an increased risk of loss in the future.

Substandard – A substandard asset is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard.

Doubtful – A doubtful asset has all weaknesses inherent in one classified substandard, with the added characteristic that weaknesses make collection or liquidation in full, on the basis of existing facts, conditions, and values, highly questionable and improbable. The probability of loss is extremely high, but certain important and reasonable specific pending factors which may work to the advantage and strengthening of the asset exist, therefore, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors include proposed merger, acquisition or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Loans not falling into the criteria above are considered to be pass-rated loans. The Company utilizes six loan grades within the pass risk rating.

The following tables present the loan balances by category as well as risk rating (in thousands):

	Non-impaired Loans				Total Impaired Loans	Total
	Pass	Special Mention	Substandard	Total Non-impaired		
March 31, 2018						
Commercial real estate	\$ 387,925	\$ —	\$ 642	\$ 388,567	\$ 1,190	\$ 389,757
Consumer real estate	104,114	—	110	104,224	—	104,224
Construction and land development	91,953	—	—	91,953	—	91,953
Commercial and industrial	393,520	1,540	11,964	407,024	1,329	408,353
Consumer	9,524	—	—	9,524	—	9,524
Other	28,750	—	—	28,750	—	28,750
Total	<u>\$ 1,015,786</u>	<u>\$ 1,540</u>	<u>\$ 12,716</u>	<u>\$ 1,030,042</u>	<u>\$ 2,519</u>	<u>\$ 1,032,561</u>
December 31, 2017						
Commercial real estate	\$ 349,415	\$ —	\$ —	\$ 349,415	\$ 1,207	\$ 350,622
Consumer real estate	102,571	—	10	102,581	—	102,581
Construction and land development	82,586	—	—	82,586	—	82,586
Commercial and industrial	349,494	11,193	11,073	371,760	1,488	373,248
Consumer	6,849	—	13	6,862	—	6,862
Other	31,983	—	—	31,983	—	31,983
Total	<u>\$ 922,898</u>	<u>\$ 11,193</u>	<u>\$ 11,096</u>	<u>\$ 945,187</u>	<u>\$ 2,695</u>	<u>\$ 947,882</u>

None of the Company's loans had a risk rating of "Doubtful" as of March 31, 2018 or December 31, 2017.

The following table details the changes in the ALL for the three months ended March 31, 2018 and 2017 (in thousands):

	Commercial real estate	Consumer real estate	Construction and land development	Commercial and industrial	Consumer	Other	Total
Three Months Ended March 31, 2018							
Balance, beginning of year	\$ 3,324	\$ 1,063	\$ 1,628	\$ 7,209	\$ 91	\$ 406	\$ 13,721
Charged-off loans	—	—	—	(147)	(13)	—	(160)
Recoveries	5	1	—	272	46	—	324
Provision for loan losses	183	(28)	114	464	(2)	(53)	678
Balance, end of period	\$ 3,512	\$ 1,036	\$ 1,742	\$ 7,798	\$ 122	\$ 353	\$ 14,563
Three Months Ended March 31, 2017							
Balance, beginning of year	\$ 2,655	\$ 1,013	\$ 1,574	\$ 5,618	\$ 76	\$ 698	\$ 11,634
Charged-off loans	—	—	—	(1,124)	—	—	(1,124)
Recoveries	—	—	—	2	80	—	82
Provision for loan losses	602	35	(484)	3,517	(96)	(169)	3,405
Balance, end of period	\$ 3,257	\$ 1,048	\$ 1,090	\$ 8,013	\$ 60	\$ 529	\$ 13,997

A breakdown of the ALL and the loan portfolio by loan category at March 31, 2018 and December 31, 2017 follows (in thousands):

	Commercial real estate	Consumer real estate	Construction and land development	Commercial and industrial	Consumer	Other	Total
March 31, 2018							
Allowance for Loan Losses:							
Collectively evaluated for impairment	\$ 3,512	\$ 1,036	\$ 1,742	\$ 7,798	\$ 122	\$ 353	\$ 14,563
Individually evaluated for impairment	—	—	—	—	—	—	—
Balances, end of period	\$ 3,512	\$ 1,036	\$ 1,742	\$ 7,798	\$ 122	\$ 353	\$ 14,563
Loans:							
Collectively evaluated for impairment	\$ 388,567	\$ 104,224	\$ 91,953	\$ 407,024	\$ 9,524	\$ 28,750	\$ 1,030,042
Individually evaluated for impairment	1,190	—	—	1,329	—	—	2,519
Balances, end of period	\$ 389,757	\$ 104,224	\$ 91,953	\$ 408,353	\$ 9,524	\$ 28,750	\$ 1,032,561
December 31, 2017							
Allowance for Loan Losses:							
Collectively evaluated for impairment	\$ 3,324	\$ 1,063	\$ 1,628	\$ 7,109	\$ 91	\$ 406	\$ 13,621
Individually evaluated for impairment	—	—	—	100	—	—	100
Balances, end of period	\$ 3,324	\$ 1,063	\$ 1,628	\$ 7,209	\$ 91	\$ 406	\$ 13,721
Loans:							
Collectively evaluated for impairment	\$ 349,415	\$ 102,581	\$ 82,586	\$ 371,760	\$ 6,862	\$ 31,983	\$ 945,187
Individually evaluated for impairment	1,207	—	—	1,488	—	—	2,695
Balances, end of period	\$ 350,622	\$ 102,581	\$ 82,586	\$ 373,248	\$ 6,862	\$ 31,983	\$ 947,882

The following table presents the allocation of the ALL for each respective loan category with the corresponding percentage of the ALL in each category to total loans, net of deferred fees as of March 31, 2018 and December 31, 2017 (dollars in thousands):

	March 31, 2018		December 31, 2017	
	Amount	Percent of total loans, net of deferred fees	Amount	Percent of total loans, net of deferred fees
Commercial real estate	\$ 3,512	0.34%	\$ 3,324	0.35%
Consumer real estate	1,036	0.10	1,063	0.11
Construction and land development	1,742	0.17	1,628	0.17
Commercial and industrial	7,798	0.76	7,209	0.76
Consumer	122	0.01	91	0.01
Other	353	0.03	406	0.04
Total allowance for loan and lease losses	\$ 14,563	1.41%	\$ 13,721	1.45%

The following table presents the Company's impaired loans that were evaluated for specific loss allowance as of March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018			December 31, 2017		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Related allowance
With no related allowance recorded:						
Commercial real estate	\$ 1,190	\$ 1,638	\$ —	\$ 1,207	\$ 1,645	\$ —
Consumer real estate	—	—	—	—	—	—
Construction and land development	—	—	—	—	—	—
Commercial and industrial	1,329	2,770	—	—	—	—
Consumer	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	<u>2,519</u>	<u>4,408</u>	<u>—</u>	<u>1,207</u>	<u>1,645</u>	<u>—</u>
With an allowance recorded:						
Commercial real estate	—	—	—	—	—	—
Consumer real estate	—	—	—	—	—	—
Construction and land development	—	—	—	—	—	—
Commercial and industrial	—	—	—	1,488	2,770	100
Consumer	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,488</u>	<u>2,770</u>	<u>100</u>
Total	<u>\$ 2,519</u>	<u>\$ 4,408</u>	<u>\$ —</u>	<u>\$ 2,695</u>	<u>\$ 4,415</u>	<u>\$ 100</u>

The following presents information related to the average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2018 and 2017 (in thousands):

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
With no related allowance recorded:				
Commercial real estate	\$ 1,197	\$ 10	\$ 1,299	\$ —
Consumer real estate	—	—	—	—
Construction and land development	—	—	—	—
Commercial and industrial	1,470	—	—	—
Consumer	—	—	—	—
Other	—	—	—	—
Subtotal	<u>2,667</u>	<u>10</u>	<u>1,299</u>	<u>—</u>
With an allowance recorded:				
Commercial real estate	—	—	—	—
Consumer real estate	—	—	—	—
Construction and land development	—	—	—	—
Commercial and industrial	—	—	13,106	—
Consumer	—	—	—	—
Other	—	—	—	—
Subtotal	<u>—</u>	<u>—</u>	<u>13,106</u>	<u>—</u>
Total	<u>\$ 2,667</u>	<u>\$ 10</u>	<u>\$ 14,405</u>	<u>\$ —</u>

Interest income recognized on a cash basis for impaired loans amounted to \$10,000 for the three months ended March 31, 2018. No interest income was recognized on a cash basis for impaired loans during the three months ended March 31, 2017.

The following table presents the aging of the recorded investment in past-due loans as of March 31, 2018 and December 31, 2017 by class of loans (in thousands):

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
March 31, 2018						
Commercial real estate	\$ —	\$ —	\$ —	\$ —	\$ 389,757	\$ 389,757
Consumer real estate	177	317	—	494	103,730	104,224
Construction and land development	—	—	—	—	91,953	91,953
Commercial and industrial	—	—	—	—	408,353	408,353
Consumer	12	—	—	12	9,512	9,524
Other	1,200	—	—	1,200	27,550	28,750
Total	\$ 1,389	\$ 317	\$ —	\$ 1,706	\$ 1,030,855	\$ 1,032,561
December 31, 2017						
Commercial real estate	\$ —	\$ —	\$ —	\$ —	\$ 350,622	\$ 350,622
Consumer real estate	—	—	218	218	102,363	102,581
Construction and land development	—	—	—	—	82,586	82,586
Commercial and industrial	1,967	209	—	2,176	371,072	373,248
Consumer	—	—	13	13	6,849	6,862
Other	—	—	—	—	31,983	31,983
Total	\$ 1,967	\$ 209	\$ 231	\$ 2,407	\$ 945,475	\$ 947,882

The following table presents the recorded investment in non-accrual loans, past due loans over 90 days and accruing and troubled debt restructurings (“TDR”) by class of loans as of March 31, 2018 and December 31, 2017 (in thousands):

	Non-Accrual	Past Due Over 90 Days and Accruing	Troubled Debt Restructurings
March 31, 2018			
Commercial real estate	\$ —	\$ —	\$ 1,190
Consumer real estate	—	—	—
Construction and land development	—	—	—
Commercial and industrial	1,329	—	—
Consumer	—	—	—
Other	—	—	—
Total	\$ 1,329	\$ —	\$ 1,190
December 31, 2017			
Commercial real estate	\$ 1,207	\$ —	\$ 1,207
Consumer real estate	—	218	—
Construction and land development	—	—	—
Commercial and industrial	1,488	—	—
Consumer	—	13	—
Other	—	—	—
Total	\$ 2,695	\$ 231	\$ 1,207

As of March 31, 2018 and December 31, 2017, all loans classified as nonperforming were deemed to be impaired.

As of both March 31, 2018 and December 31, 2017, the Company had a recorded investment in TDR of \$1.2 million. The Company had no specific allowance for those loans at March 31, 2018 or December 31, 2017 and there were no commitments to lend additional amounts. Loans accounted for as TDR include modifications from original terms such as those due to bankruptcy proceedings, certain modifications of amortization periods or extended suspension of principal payments due to customer financial difficulties. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank’s loan policy. Loans accounted for as TDR are individually evaluated for impairment.

There were no TDR identified during the three months ended March 31, 2018 or 2017. There were no TDR for which there was a payment default within twelve months following the modification during the three months ended March 31, 2018 or 2017.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

NOTE 4 – FEDERAL HOME LOAN BANK ADVANCES

The Company had outstanding borrowings totaling of \$100.0 million and \$70.0 million at March 31, 2018 and December 31, 2017, respectively, via various advances. These advances are non-callable; interest payments are due monthly, with principal due at maturity.

The following is a summary of the contractual maturities and average effective rates of outstanding advances (dollars in thousands):

Year	March 31, 2018		December 31, 2017	
	Amount	Interest Rates	Amount	Interest Rates
2018	\$ 100,000	1.98%	\$ 70,000	1.66%
2019	—	—	—	—
2020	—	—	—	—
2021	—	—	—	—
2022	—	—	—	—
Thereafter	—	—	—	—
Total	\$ 100,000	1.98%	\$ 70,000	1.66%

Advances from the FHLB are collateralized by investment securities with a market value of \$3.9 million, FHLB stock and certain commercial and residential real estate mortgage loans totaling \$395.7 million under a blanket mortgage collateral agreement. At March 31, 2018, the amount of available credit from the FHLB totaled \$75.7 million.

NOTE 5 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following were changes in accumulated other comprehensive income (loss) by component, net of tax, for the periods ended March 31, 2018 and 2017 (in thousands):

	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available for Sale Securities	Unrealized Losses on Securities Transferred to Held to Maturity	Total
Three Months Ended March 31, 2018				
Beginning Balance	\$ (3,679)	\$ 1,162	\$ (10)	\$ (2,527)
Other comprehensive income (loss) before reclassification	768	(3,216)	20	(2,428)
Amounts reclassified from accumulated other comprehensive income (loss)	(228)	—	(10)	(238)
Net current period other comprehensive income (loss)	540	(3,216)	10	(2,666)
Ending Balance	\$ (3,139)	\$ (2,054)	\$ —	\$ (5,193)
Three Months Ended March 31, 2017				
Beginning Balance	\$ (4,241)	\$ (698)	\$ (1,212)	\$ (6,151)
Other comprehensive income (loss) before reclassification	307	363	52	722
Amounts reclassified from accumulated other comprehensive income (loss)	(154)	(4)	(26)	(184)
Net current period other comprehensive income (loss)	153	359	26	538
Ending Balance	\$ (4,088)	\$ (339)	\$ (1,186)	\$ (5,613)

The following were significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three months ended March 31, 2018 and 2017 (in thousands):

Details about Accumulated Other Comprehensive Income Components	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Affected Line Item in the Statement Where Net Income is Presented
Unrealized losses on cash flow hedges	\$ (108)	\$ (105)	Interest expense - money market
	(144)	(49)	Interest expense - Federal Home Loan
	24	—	Bank advances
	<u>(228)</u>	<u>(154)</u>	Income tax benefit
			Net of tax
Unrealized gains and (losses) on available-for-sale securities	\$ —	\$ (6)	Net gain (loss) on sale of securities
	—	2	Income tax benefit
	<u>—</u>	<u>(4)</u>	Net of tax
Unrealized losses on securities transferred to held-to-maturity	\$ (14)	\$ (42)	Interest income - securities
	4	16	Income tax benefit
	<u>(10)</u>	<u>(26)</u>	Net of tax

NOTE 6 – INCOME TAXES

The Company's effective tax rate for the three months ended March 31, 2018 was 13.1% compared to (16.5)% for the three months ended March 31, 2017. In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions, including income tax consequences. In addition to other changes, the guidance changed the accounting for excess tax benefits and tax deficiencies from generally being recognized in additional paid-in capital to recognition as income tax expense or benefit in the period they occur. The Company adopted the new guidance in the first quarter of 2017. As a result, the Company's income tax expense was reduced by \$363,000 and \$145,000 for the periods ended March 31, 2018 and 2017.

On December 22, 2017, Public Law 115-97, informally referred to as the Tax Cuts and Jobs Act (the "Tax Reform Act") was enacted into law. The Tax Reform Act provides for significant changes to the U.S. tax code that impact businesses. Effective January 1, 2018, the Tax Reform Act reduced the U.S. federal tax rate for corporations from 35% to 21% for U.S. taxable income.

The effective tax rate compared favorably to the statutory federal rate of 21% and Tennessee excise tax rate of 6.5% primarily due to investments in qualified municipal securities, company owned life insurance, state tax credits, net of the effect of certain non-deductible expenses and the recognition of excess tax benefits related to stock compensation.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheet.

The following table sets forth outstanding financial instruments whose contract amounts represent credit risk as of March 31, 2018 and December 31, 2017 (in thousands):

	Contract or notional amount	
	March 31, 2018	December 31, 2017
Financial instruments whose contract amounts represent credit risk:		
Unused commitments to extend credit	\$ 584,145	\$ 584,494
Standby letters of credit	10,325	11,552
Total	<u>\$ 594,470</u>	<u>\$ 596,046</u>

The Company is party to litigation and claims arising in the normal course of business. Management believes that the liabilities, if any, arising from such litigation and claims as of March 31, 2018, will not have a material impact on the financial statements of the Company.

NOTE 8 – DERIVATIVES

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Interest Rate Swaps Designated as Cash Flow Hedges

Forward starting interest rate swaps with notional amounts totaling \$20 million as of March 31, 2018 and December 31, 2017 were designated as cash flow hedges of certain liabilities and were determined to be fully effective during all periods presented. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swaps is recorded in other assets (liabilities) with changes in fair value recorded in other comprehensive income (loss). The amount included in accumulated other comprehensive income (loss) would be reclassified to current earnings should the hedges no longer be considered effective. The Company expects the hedges to remain fully effective during the remaining terms of the swaps.

Summary information about the interest-rate swaps designated as cash flow hedges was as follows (dollars in thousands):

	March 31, 2018	December 31, 2017
	Notional amounts	\$ 20,000
Weighted average pay rates	3.54%	3.54%
Weighted average receive rates	3 month LIBOR	3 month LIBOR
Weighted average maturity	5.2 years	5.5 years
Fair value	\$ (858)	\$ (1,375)
Amount of unrealized loss recognized in accumulated other comprehensive income, net of tax	\$ (634)	\$ (1,016)

Pursuant to its interest rate swap agreements, the Company pledged collateral to the counterparties in the form of investment securities with a carrying value of \$2.3 million at March 31, 2018. There was no collateral posted from the counterparties to the Company as of March 31, 2018. It is possible that the Company may need to post additional collateral in the future or that the counterparties may be required to post collateral to the Company in the future.

Other Interest Rate Swaps

The Company also enters into swaps to facilitate customer transactions and meet their financing needs. Upon entering into these transactions the Company enters into offsetting positions with large U.S. financial institutions in order to minimize risk to the Company. A summary of the Company's customer related interest rate swaps was as follows (in thousands):

	March 31, 2018		December 31, 2017	
	Notional amount	Estimated fair value	Notional amount	Estimated fair value
Interest rate swap agreements:				
Pay fixed/receive variable swaps	\$ 35,159	\$ 174	\$ 41,863	\$ 55
Pay variable/receive fixed swaps	35,159	(174)	41,863	(55)
Total	<u>\$ 70,318</u>	<u>\$ —</u>	<u>\$ 83,726</u>	<u>\$ —</u>

NOTE 9 – STOCK OPTIONS AND RESTRICTED SHARES

During 2008, the board of directors of the Bank approved the CapStar Bank 2008 Stock Incentive Plan. Following the formation of CapStar Financial Holdings, Inc. in 2016, and in connection with the Share Exchange, the outstanding awards of restricted stock and stock options under the CapStar Bank 2008 Stock Incentive Plan were exchanged for similar awards of restricted stock and stock options issued by CapStar Financial Holdings, Inc. under the CapStar Financial Holdings, Inc. Stock Incentive Plan (the "Plan"), which the board of directors adopted in 2016. The Stock Incentive Plan provides for the grant of stock-based incentives, including stock options, restricted stock units, performance awards and restricted stock, to employees, directors and service providers that are subject to forfeiture until vesting conditions have been satisfied by the award recipient under the terms of the award. The Plan is intended to help align the interests of employees and our shareholders and reward our employees for improved Company performance. The Plan reserved 1,569,475 shares of stock for issuance of stock incentives. Stock incentives include both restricted share and stock option grants. Total shares issuable under the plan were 113,050 at March 31, 2018.

The Company has recognized stock-based compensation expense, within salaries and employee benefits for employees, and within other non-interest expense for directors, in the consolidated statements of income as follows (in thousands):

	Three Months Ended	
	March 31,	
	2018	2017
Stock-based compensation expense before income taxes	\$ 305	\$ 236
Less: deferred tax benefit	(80)	(90)
Reduction of net income	<u>\$ 225</u>	<u>\$ 146</u>

Restricted Shares

Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at the issue date. The fair value of each restricted stock grant is based on valuations performed by independent consultants. The recipients have the right to vote and receive dividends but cannot sell, transfer, assign, pledge, hypothecate, or otherwise encumber the restricted stock until the shares have vested. Restricted shares fully vest on the third anniversary of the grant date. A summary of the changes in the Company's nonvested restricted shares for the three months ended March 31, 2018 follows:

Nonvested Shares	Restricted Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	187,253	\$ 14.21
Granted	46,219	19.11
Vested	(76,690)	12.14
Forfeited	(4,402)	(17.54)
Nonvested at end of period	<u>152,380</u>	<u>\$ 16.64</u>

As of March 31, 2018, there was \$2.1 million of unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.3 years. The total fair value of shares vested during the three months ended March 31, 2018 and 2017 was \$1.5 million and \$0.5 million.

Stock Options

Option awards are generally granted with an exercise price equal to the fair value of the Company's common stock at the date of grant. Option awards generally have a three year vesting period and a ten year contractual term.

The fair value of each option grant is estimated on the date of grant using the Black Scholes option pricing model. There were no options granted in 2018 or 2017.

A summary of the activity in stock options for the three months ended March 31, 2018 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)
Outstanding at beginning of period	804,800	\$ 10.59	
Granted	—	—	
Exercised	(94,950)	10.00	
Forfeited or expired	—	—	
Outstanding at end of period	<u>709,850</u>	<u>\$ 10.67</u>	<u>2.4</u>
Fully vested and expected to vest	<u>706,658</u>	<u>\$ 10.67</u>	<u>2.4</u>
Exercisable at end of period	<u>682,350</u>	<u>\$ 10.61</u>	<u>2.2</u>

Information related to stock options during each year follows:

	2018	2017
Intrinsic value of options exercised	\$ 897,541	\$ 193,800
Cash received from option exercises	949,500	200,000
Tax benefit realized from option exercises	234,617	74,206
Weighted average fair value of options granted	—	—

As of March 31, 2018, there was \$0.1 million of unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.4 years.

NOTE 10 – REGULATORY CAPITAL REQUIREMENTS

The Company and the Bank are subject to regulatory capital requirements administered by the Federal Reserve and the Bank is also subject to the regulatory capital requirements of the Tennessee Department of Financial Institutions. Failure to meet capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that could, in that event, have a material adverse effect on the institutions' financial statements. The relevant regulations require the Company and the Bank to meet specific capital adequacy guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting principles. The capital classifications of the Company and the Bank are also subject to qualitative judgments by their regulators about components, risk weightings, and other factors. Those qualitative judgments could also affect the capital status of the Company and the Bank and the amount of dividends the Company and the Bank may distribute. The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of March 31, 2018, the Company and the Bank met all regulatory capital adequacy requirements to which they are subject.

The Company's and the Bank's capital amounts and ratios as of March 31, 2018 and December 31, 2017 are presented in the following table (dollars in thousands).

	Actual		Minimum capital requirement (1)		Minimum to be well-capitalized (2)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At March 31, 2018:						
Total capital to risk-weighted assets:						
CapStar Financial Holdings, Inc.	\$ 161,699	12.22%	\$ 105,833	8.00%	N/A	N/A
CapStar Bank	146,639	11.09	105,820	8.00	\$ 132,274	10.00
Tier I capital to risk-weighted assets:						
CapStar Financial Holdings, Inc.	146,957	11.11	79,375	6.00	N/A	N/A
CapStar Bank	131,897	9.97	79,365	6.00	105,820	8.00
Common equity Tier 1 capital to risk weighted assets:						
CapStar Financial Holdings, Inc.	137,957	10.43	59,531	4.50	N/A	N/A
CapStar Bank	115,397	8.72	59,523	4.50	85,978	6.50
Tier I capital to average assets:						
CapStar Financial Holdings, Inc.	146,957	10.86	54,143	4.00	N/A	N/A
CapStar Bank	131,897	9.75	54,139	4.00	67,674	5.00
At December 31, 2017:						
Total capital to risk-weighted assets:						
CapStar Financial Holdings, Inc.	\$ 156,434	12.52%	\$ 99,932	8.00%	N/A	N/A
CapStar Bank	142,396	11.40	99,928	8.00	\$ 124,909	10.00
Tier I capital to risk-weighted assets:						
CapStar Financial Holdings, Inc.	142,534	11.41	74,949	6.00	N/A	N/A
CapStar Bank	128,496	10.29	74,946	6.00	99,928	8.00
Common equity Tier 1 capital to risk weighted assets:						
CapStar Financial Holdings, Inc.	133,703	10.70	56,212	4.50	N/A	N/A
CapStar Bank	112,165	8.98	56,209	4.50	81,191	6.50
Tier I capital to average assets:						
CapStar Financial Holdings, Inc.	142,534	10.77	53,218	4.00	N/A	N/A
CapStar Bank	128,496	9.71	53,215	4.00	66,519	5.00

- (1) For the calendar year 2018, the Company must maintain a capital conservation buffer of Tier 1 common equity capital in excess of minimum risk-based capital ratios by at least 1.875% to avoid limits on capital distributions and certain discretionary bonus payments to executive officers and similar employees.
- (2) For the Company to be well-capitalized, the Bank must be well-capitalized and the Company must not be subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the Federal Reserve to meet and maintain a specific capital level for any capital measure.

NOTE 11 – EARNINGS PER SHARE

The following is a summary of the basic and diluted earnings per share calculation for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
Basic net income per share calculation:		
Numerator – Net income	\$ 3,195	\$ 332
Denominator – Average common shares outstanding	11,664,467	11,210,948
Basic net income per share	<u>\$ 0.27</u>	<u>\$ 0.03</u>
Diluted net income per share calculation:		
Numerator – Net income	\$ 3,195	\$ 332
Denominator – Average common shares outstanding	11,664,467	11,210,948
Dilutive shares contingently issuable	1,311,514	1,573,169
Average diluted common shares outstanding	<u>12,975,981</u>	<u>12,784,117</u>
Diluted net income per share	<u>\$ 0.25</u>	<u>\$ 0.03</u>

NOTE 12 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded and, values debt securities by relying on quoted prices for the specific securities and the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). See below for additional discussion of Level 3 valuation methodologies and significant inputs. The fair values of all securities are determined from third party pricing services without adjustment.

Derivatives-Interest Rate Swaps: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). The Bank's derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. The fair values of all interest rate swaps are determined from third party pricing services without adjustment.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Such adjustments result in a Level 3 classification of the inputs for determining fair value. Collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on at least a quarterly basis for additional impairment and adjusted in accordance with the loan policy. The Company had no impaired loans marked to fair value at March 31, 2018.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach with data from comparable properties. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Appraisals may be adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and/or management's expertise and knowledge of the collateral. Such adjustments result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly. The Company had no other real estate owned at March 31, 2018 or December 31, 2017.

Loans Held For Sale: Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2). There were no loans held for sale carried at fair value at March 31, 2018 or December 31, 2017.

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

	Fair value measurements at March 31, 2018			
	Carrying Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Securities available-for-sale:				
U.S. government-sponsored agencies	\$ 10,844	\$ —	\$ 10,844	\$ —
Obligations of states and political subdivisions	48,215	—	48,215	—
Mortgage-backed securities-residential	104,292	—	104,292	—
Asset-backed securities	16,356	—	16,356	—
Other debt securities	9,873	—	9,873	—
Total securities available-for-sale	\$ 189,580	\$ —	\$ 189,580	\$ —
Derivatives:				
Interest rate swaps - customer related	\$ 594	\$ —	\$ 594	\$ —
Liabilities:				
Derivatives:				
Interest rate swaps - customer related	\$ (594)	\$ —	\$ (594)	\$ —
Interest rate swaps - cash flow hedges	(858)	—	(858)	—
Total derivatives	\$ (1,452)	\$ —	\$ (1,452)	\$ —

Fair value measurements at December 31, 2017				
	Carrying Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Securities available-for-sale:				
U.S. government-sponsored agencies	\$ 11,277	\$ —	\$ 11,277	\$ —
Obligations of states and political subdivisions	52,998	—	52,998	—
Mortgage-backed securities-residential	106,562	—	106,562	—
Asset-backed securities	16,377	—	16,377	—
Other debt securities	5,407	—	5,407	—
Total securities available-for-sale	<u>\$ 192,621</u>	<u>\$ —</u>	<u>\$ 192,621</u>	<u>\$ —</u>
Derivatives:				
Interest rate swaps - customer related	<u>\$ 184</u>	<u>\$ —</u>	<u>\$ 184</u>	<u>\$ —</u>
Liabilities:				
Derivatives:				
Interest rate swaps - customer related	\$ (184)	\$ —	\$ (184)	\$ —
Interest rate swaps - cash flow hedges	(1,375)	—	(1,375)	—
Total derivatives	<u>\$ (1,559)</u>	<u>\$ —</u>	<u>\$ (1,559)</u>	<u>\$ —</u>

Assets measured at fair value on a nonrecurring basis are summarized below (in thousands): There were no assets measured at fair value on a nonrecurring basis at March 31, 2018.

Fair value measurements at December 31, 2017				
	Carrying Value	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Assets:				
Impaired loans:				
Commercial and industrial	\$ 1,388	—	—	1,388

The following table presents quantitative information about Level 3 fair value measurements for assets measured at fair value on a non-recurring basis at December 31, 2017 (dollars in thousands):

December 31, 2017	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted-Average)
Impaired loans:				
Commercial and industrial	\$ 1,388	Sales comparison approach	Appraisal discounts	15%

Fair Value of Financial Instruments

The carrying value and estimated fair values of the Bank's financial instruments at March 31, 2018 and December 31, 2017 were as follows (in thousands):

	March 31, 2018		December 31, 2017		Fair value level of input
	Carrying amount	Fair value	Carrying amount	Fair value	
Financial assets:					
Cash and due from banks, interest-bearing deposits in financial institutions	\$ 45,609	\$ 45,609	\$ 78,078	\$ 78,078	Level 1
Federal funds sold	5,516	5,516	4,719	4,719	Level 1
Securities available-for-sale	189,580	189,580	192,621	192,621	Level 2
Securities held-to-maturity	3,752	3,804	3,759	3,848	Level 2
Loans held for sale	62,286	63,719	74,093	75,549	Level 2
Restricted equity securities	8,809	N/A	8,806	N/A	N/A
Loans, net	1,031,821	1,020,119	947,537	944,037	Level 3
Accrued interest receivable	4,058	4,058	4,084	4,084	Level 2
Other assets	23,210	23,210	22,663	22,663	Level 2
Financial liabilities:					
Deposits	1,127,553	1,123,284	1,119,866	1,065,669	Level 3
Federal Home Loan Bank advances	100,000	100,025	70,000	69,980	Level 2
Other liabilities	2,460	2,460	3,349	3,349	Level 3

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

(a) *Cash and Due from Banks, Interest-Bearing Deposits in Financial Institutions*

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

(b) *Federal Funds Sold*

Federal funds sold clear on a daily basis. For this reason, the carrying amount is a reasonable estimate of fair value.

(c) *Restricted Equity Securities*

It is not practical to determine the fair value of restricted securities due to restrictions placed on their transferability.

(d) *Loans, net*

During the first quarter of 2018, the Company adopted ASU 2016-01, "Recognition and Measurement of Financial Assets and Liabilities." The amendments included within this standard, which are applied prospectively, require the Company to disclose fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using an exit price notion. Prior to adopting the amendments included in the standard, the Company was allowed to measure fair value under an entry price notion. The entry price notion previously applied by the Company used a discounted cash flows technique to calculate the present value of expected future cash flows for a financial instrument. The exit price notion uses the same approach, but also incorporates other factors, such as enhanced credit risk, illiquidity risk and market factors that sometimes exist in exit prices in dislocated markets.

As of March 31, 2018, the technique used by the Company to estimate the exit price of the loan portfolio consists of similar procedures to those used as of December 31, 2017, but with added emphasis on both illiquidity risk and credit risk not captured by the previously applied entry price notion. The fair value of the Company's loan portfolio has always included a credit risk assumption in the determination of the fair value of its loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Company's loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: variable rate loans, impaired loans and all other loans. The results are then adjusted to account for credit risk as described above. However, under the new guidance, the Company believes a further credit risk discount must be applied through the use of a discounted cash flow model to compensate for illiquidity risk, based on certain assumptions included within the discounted cash flow model, primarily the use of discount rates that better capture inherent credit risk over the lifetime of a loan. This consideration of enhanced credit risk provides an estimated exit price for the Company's loan portfolio.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral.

As of December 31, 2017, the fair value of the Company's loan portfolio includes a credit risk assumption in the determination of the fair value of its loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Company's loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: variable rate loans, impaired loans and all other loans. The results are then adjusted to account for credit risk. For variable-rate loans that repriced frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. The values derived from the discounted cash flow approach for each of the above portfolios are then further discounted to incorporate credit risk. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price as of December 31, 2017.

(e) *Accrued Interest Receivable*

The carrying amounts of accrued interest approximate fair value.

(f) *Other Assets*

Included in other assets are bank owned life insurance, certain interest rate swap agreements and the cash flow hedge relationships. The fair values of interest rate swap agreements and the cash flow hedge relationships are based on independent pricing services that utilize pricing models with observable market inputs. For bank owned life insurance, the carrying amount is based on the cash surrender value and is a reasonable estimate of fair value.

(g) *Deposits*

The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated by discounted cash flow models, using current market interest rates offered on certificates with similar remaining maturities.

(h) *Federal Home Loan Bank Advances*

The fair value of fixed rate Federal Home Loan Bank Advances is estimated using discounted cash flow models, using current market interest rates offered on certificates, advances and other borrowings with similar remaining maturities.

(i) *Other Liabilities*

Included in other liabilities are accrued interest payable, certain interest rate swap agreements, the cash flow hedge relationships and contingent consideration. The fair values of interest rate swap agreements and the cash flow hedge relationships are based on independent pricing services that utilize pricing models with observable market inputs. The fair value of contingent consideration is estimated by a discounted cash flow model that utilizes various unobservable inputs. The carrying amounts of accrued interest approximate fair value.

(j) *Off-Balance Sheet Instruments*

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

(k) *Limitations*

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on estimating on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, fixed assets are not considered financial instruments and their value has not been incorporated into the fair value estimates. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is a discussion of our financial condition at March 31, 2018 and December 31, 2017 and our results of operations for the three months ended March 31, 2018 and 2017. The purpose of this discussion is to focus on information about our financial condition and results of operations which is not otherwise apparent from the consolidated financial statements. The following discussion and analysis should be read along with our consolidated financial statements and the related notes included elsewhere in this Report and our Annual Report on Form 10-K for the year ended December 31, 2017. Annualized results for interim periods may not be indicative of results for the full year or future periods. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from our current expectations. Factors that could cause such differences are discussed in the section entitled "Cautionary Note Regarding Forward-Looking Statements" in this Report and the section entitled "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017. We assume no obligation to update any of these forward-looking statements except to the extent required by applicable law.

The following discussion and analysis pertains to our historical results on a consolidated basis. However, because we conduct all of our material business operations through our wholly-owned subsidiary, CapStar Bank, the following discussion and analysis relates to activities primarily conducted at the subsidiary level.

All dollar amounts in the tables in this section are in thousands of dollars, except per share data or when otherwise specifically noted.

Overview

We completed the first three months of 2018 with net income of \$3.2 million, or 862.3% more than the comparable period of 2017. Fully diluted net income per share of common stock for the first three months of 2018 was \$0.25, compared with \$0.03 for the same period in 2017. Annualized return on average assets was 0.96% for the first three months of 2018 compared to 0.10% for the same period in 2017.

The increase in our profitability was due to several factors, including:

- An improved net interest margin,
- improved asset quality metrics, and
- growth in noninterest income.

These positive factors led to an increase in noninterest expenses driven primarily by an increase in accrued incentive compensation and personnel costs as we grow our team and continue to expand in the Nashville MSA.

Average loans for the first three months of 2018 were \$983.5 million, a 0.9% increase over the comparable period of 2017. Average deposits for the first three months of 2018 were \$1.1 billion, a 2.8% decrease over the comparable period of 2017.

Our primary revenue sources are net interest income and fees from various financial services provided to customers. Net interest income is the difference between interest income earned on loans, investment securities and other interest earning assets less interest expense on deposit accounts and other interest bearing liabilities. Loan volume and interest rates earned on those loans are critical to overall profitability. Similarly, deposit volume is crucial to funding loans and rates paid on deposits directly impact profitability. Business volumes are influenced by competition, new business acquisition efforts and economic factors including market interest rates, business spending and consumer confidence.

Net interest income increased \$0.9 million, or 9.2%, for the first three months of 2018, compared with the same period in 2017. The positive effects of increased yields on earning assets were partially offset by the negative effect of increasing deposit costs. Net interest margin increased to 3.37% for the first three months of 2018, compared with 3.12% for the same period of 2017.

In response to the assessment of risk in the loan portfolio, including net loan growth and charge-offs, we recorded a \$0.7 million provision for loan losses for the first three months of 2018, compared to a \$3.4 million provision during 2017. The 2017 provision for loan losses was caused primarily by deterioration in the credit quality of commercial and industrial loans to two borrowers. The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's evaluation, is adequate to provide coverage for the estimated probable inherent losses on outstanding loans. Our allowance for loan losses at March 31, 2018 was 1.41% of total loans, compared with 1.45% of total loans at December 31, 2017.

Total non-interest income in the first three months of 2018 increased \$0.9 million, or 44.8%, compared with the same period in 2017, and comprised 18% of total revenues. The increase was primarily the result of higher Tri-Net fees related to increased volumes of commercial real estate loan sales.

As we grew our team and expanded in the Nashville MSA, total non-interest expense in the first three months of 2018 increased \$1.2 million, or 14.4%, compared with the same period in 2017. Our efficiency ratio in the first three months of 2018 was 68.8% compared to 69.4% in the same period in 2017.

Our effective tax rate increased to 13.1% for the first three months of 2018 from (16.5)% for the same period in 2017. The increase in the effective tax rate is largely the result of the decreasing ratio of excess tax benefits from stock compensation to income before income taxes.

Tangible common equity (“TCE”), a non-GAAP measure, is a measure of a company’s capital which is useful in evaluating the quality and adequacy of capital. The ratio of tangible common equity to total tangible assets was 9.7% as of March 31, 2018, compared with 9.8% at December 31, 2017. The decrease is due to growth in our total tangible assets. See “Non-GAAP Financial Measures” for details on reconciliations to the most directly comparable U.S. GAAP measures.

The following sections provide more details on subjects presented in this overview.

(a) Results of Operations

The following is a summary of our results of operations:

	Three months ended March 31,		2018 - 2017 Percent Increase (Decrease)
	2018	2017	
Interest income	\$ 13,744	\$ 11,979	14.7%
Interest expense	2,898	2,047	41.6%
Net interest income	10,846	9,932	9.2%
Provision for loan losses	678	3,405	(80.1)%
Net interest income after provision for loan losses	10,168	6,527	55.8%
Noninterest income	3,090	2,134	44.8%
Noninterest expense	9,580	8,376	14.4%
Net income before income taxes	3,678	285	1190.5%
Income tax expense (benefit)	483	(47)	(1127.7)%
Net income	\$ 3,195	\$ 332	862.3%
<i>Basic net income per share of common stock</i>	\$ 0.27	\$ 0.03	800.0%
<i>Fully diluted net income per share of common stock</i>	\$ 0.25	\$ 0.03	733.3%

Annualized return on average assets and annualized return on average shareholders’ equity were 0.96% and 8.74%, respectively, for the first quarter of 2018, compared with 0.10% and 0.95%, respectively, for the same period in 2017.

Net Interest Income

The largest component of our net income is net interest income – the difference between the income earned on interest-earning assets and the interest paid on deposits and borrowed funds used to support our assets. Net interest income divided by total average interest-earning assets represents our net interest margin. The major factors that affect net interest income and net interest margin are changes in volumes, the yield on interest-earning assets and the cost of interest-bearing liabilities. Our margin can also be affected by economic conditions, the competitive environment, loan demand and deposit flow. Our ability to respond to changes in these factors by using effective asset-liability management techniques is critical to maintaining the stability of the net interest margin and our net interest income.

The following tables set forth the amount of our average balances, interest income or interest expense for each category of interest-earning assets and interest-bearing liabilities and the average interest rate for interest-earning assets and interest-bearing liabilities, net interest spread and net interest margin for the three months ended March 31, 2018 and 2017:

	For the Three Months Ended March 31,					
	2018			2017		
	Average Outstanding Balance	Interest Income/Expense	Average Yield/Rate	Average Outstanding Balance	Interest Income/Expense	Average Yield/Rate
Interest-Earning Assets						
Loans (1)	\$ 983,496	\$ 11,484	4.74%	\$ 974,350	\$ 10,194	4.24%
Loans held for sale	68,084	750	4.47%	28,359	273	3.91%
Securities:						
Taxable investment securities (2)	156,287	1,005	2.57%	181,647	1,079	2.38%
Investment securities exempt from federal income tax (3)	46,987	284	2.42%	55,437	326	2.35%
Total securities	203,274	1,289	2.54%	237,084	1,405	2.37%
Cash balances in other banks	48,585	201	1.68%	48,041	105	0.88%
Funds sold	3,539	20	2.28%	1,729	2	0.54%
Total interest-earning assets	1,306,978	13,744	4.26%	1,289,563	11,979	3.77%
Noninterest-earning assets	44,152			50,674		
Total assets	<u>\$ 1,351,130</u>			<u>\$ 1,340,237</u>		
Interest-Bearing Liabilities						
Interest-bearing deposits:						
Interest-bearing transaction accounts	\$ 286,335	754	1.07%	\$ 330,627	617	0.76%
Savings and money market deposits	379,529	1,005	1.07%	434,375	815	0.76%
Time deposits	175,007	649	1.50%	168,326	471	1.13%
Total interest-bearing deposits	840,871	2,408	1.16%	933,328	1,903	0.83%
Borrowings and repurchase agreements	84,644	490	2.35%	45,115	144	1.30%
Total interest-bearing liabilities	925,515	2,898	1.27%	978,443	2,047	0.85%
Noninterest-bearing deposits	270,312			210,308		
Total funding sources	1,195,827			1,188,751		
Noninterest-bearing liabilities	7,027			9,935		
Shareholders' equity	148,276			141,551		
Total liabilities and shareholders' equity	<u>\$ 1,351,130</u>			<u>\$ 1,340,237</u>		
Net interest spread (4)			2.99%			2.92%
Net interest income/margin (5)		<u>\$ 10,846</u>	3.37%		<u>\$ 9,932</u>	3.12%

- (1) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.
- (2) Taxable investment securities include restricted equity securities.
- (3) Average yields for investment securities exempt from federal income tax are not calculated on a tax equivalent basis.
- (4) Net interest spread is the average yield on total interest-earning assets minus the average rate on total interest-bearing liabilities.
- (5) Net interest margin is net interest income divided by total average interest-earning assets and is presented in the table above on an annualized basis.

Our net interest margin on an annualized basis was 3.37% and 3.12% for the first quarter of 2018 and 2017, respectively. The increase in net interest margin was primarily due to rising yields on earning assets offset by rising deposit costs.

For the first quarter of 2018 and 2017, average loan yields increased from 4.24% to 4.74% which was primarily driven by increases in short-term interest rate indices affecting the variable rate portion of our loan portfolio, offset by competitive pricing pressures. From December 31, 2016 to March 31, 2018, the LIBOR – 1 month interest rate increased from 0.72% to 1.80%. Approximately 65% of our loan portfolio is variable in nature. Also, during the first quarter of 2017, two loans were placed on non-accrual status, resulting in a nine basis point decrease in loan yields for the period.

For the first quarter of 2018 and 2017, average security yields increased from 2.37% to 2.54% primarily due to increases in the LIBOR rate on the variable rate portion of our securities portfolio. The resulting yield on average interest-earning assets increased to 4.26% for the first three months of 2018 compared to 3.77% for the same period in 2017.

The average rate paid on interest-bearing liabilities was 1.27% for the first three months of 2018, as compared to 0.85% for the same period in 2017. This increase was due to the increases in the Fed Funds rate which increased from 0.75% at December 31, 2016 to 1.75% at March 31, 2018. We passed along a portion of these rate increases to our clients.

Asset/Liability Management and Interest Rate Risk

Managing interest rate risk is fundamental for the financial services industry. The primary objective of interest rate risk management is to neutralize effects of interest rate changes on net income. By considering both on and off-balance sheet financial instruments, management evaluates interest rate sensitivity while attempting to optimize net interest income within the constraints of prudent capital adequacy, liquidity needs, market opportunities and customer requirements.

Interest Rate Simulation Sensitivity Analysis

We use earnings at risk, or EAR, simulations to assess the impact of changing rates on earnings under a variety of scenarios and time horizons. The simulation model is designed to reflect the dynamics of interest earning assets, interest bearing liabilities and off-balance sheet financial instruments. These simulations utilize both instantaneous and parallel changes in the level of interest rates, as well as non-parallel changes such as changing slopes and twists of the yield curve. Static simulation models are based on current exposures and assume a constant balance sheet with no new growth. Dynamic simulation models are also utilized that rely on detailed assumptions regarding changes in existing lines of business, new business, and changes in management and client behavior. By estimating the effects of interest rate increases and decreases, the model can reveal approximate interest rate risk exposure. The simulation model is used by management to gauge approximate results given a specific change in interest rates at a given point in time. The model is therefore a tool to indicate earnings trends in given interest rate scenarios and does not indicate actual expected results.

At March 31, 2018, our EAR static simulation results indicated that our balance sheet is asset sensitive to parallel shifts in interest rates. This indicates that our assets generally reprice faster than our liabilities, which results in a favorable impact to net interest income when market interest rates increase. Many assumptions are used to calculate the impact of interest rate fluctuations on our net interest income, such as asset prepayments, non-maturity deposit price sensitivity and decay rates, and key rate drivers. Because of the inherent use of these estimates and assumptions in the model, our actual results may, and most likely will, differ from our static EAR results. In addition, static EAR results do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates or client behavior. For example, as part of our asset/liability management strategy, management has the ability to increase asset duration and/or decrease liability duration in order to reduce asset sensitivity, or to decrease asset duration and/or increase liability duration in order to increase asset sensitivity.

The following table illustrates the results of our EAR analysis to determine the extent to which our net interest income over the next 12 months would change if prevailing interest rates immediately increased or decreased by the specified amounts.

	Net interest income change
Increase 200bp	5.2%
Increase 100bp	2.7
Decrease 100bp	(4.5)
Decrease 200bp	(16.7)

Provision for Loan Losses

Our policy is to maintain an allowance for loan losses at a level sufficient to absorb probable incurred losses inherent in the loan portfolio. The allowance is increased by a provision for loan losses, which is a charge to earnings, is decreased by charge-offs and increased by loan recoveries. Our allowance for loan losses as a percentage of total loans was 1.41% and 1.45% at March 31, 2018 and December 31, 2017, respectively.

The provision for loan losses amounted to \$0.7 million and \$3.4 million for the three months ended March 31, 2018 and 2017, respectively. Provision expense is impacted by the absolute level of loans, loan growth, the credit quality of the loan portfolio and the amount of net charge-offs.

Provision expense decreased for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 primarily due to a \$1.2 million decline in net charge-offs (recoveries). Also, in the first quarter of 2017 specific reserves in our allowance for loan losses were increased \$2.1 million. The increase in specific reserves in the first quarter of 2017 was caused primarily by deterioration in the credit quality of commercial and industrial loans to two borrowers. These loans experienced weakness due to each borrower's declining financial condition, which led to falling values of the collateral securing these loans.

Based upon our evaluation of the loan portfolio, we believe the allowance for loan losses to be adequate to absorb our estimate of probable losses existing in the loan portfolio at March 31, 2018. While our policies and procedures used to estimate the allowance for loan losses, as well as the resultant provision for loan losses charged to operations, are considered adequate by management, they are necessarily approximate and imprecise. There are factors beyond our control, such as conditions in the local and national economy, local real estate markets, or particular industry or borrower-specific conditions, which may materially negatively impact our asset quality and the adequacy of our allowance for loan losses and, thus, the resulting increase in our provision for loan losses could be material. See "Notes to Consolidated Financial Statements (Unaudited) — Note 3 — Loans and Allowance for Loan Losses" for additional information on our allowance for loan losses.

Noninterest Income

In addition to net interest margin, we generate recurring noninterest income from our lines of business. Our banking operations generate revenue from service charges and fees on deposit accounts. We have a mortgage banking line of business that generates revenue from originating and selling mortgages, a line of business that originates and sells commercial real estate loans (Tri-Net), and we have a revenue-sharing relationship with a registered broker-dealer, which generates wealth management fees. In addition to these types of recurring noninterest income, we own insurance on several key employees and record income on the increase in the cash surrender value of these policies.

The following table sets forth the principal components of noninterest income for the periods indicated.

	Three months ended		2018-2017 Percent Increase (Decrease)
	March 31,		
	2018	2017	
Noninterest income:			
Treasury management and other deposit service charges	\$ 402	\$ 329	22.2%
Loan commitment fees	387	236	64.0%
Net gain (loss) on sale of securities	—	(6)	(100.0)%
Tri-Net fees	528	84	528.6%
Mortgage banking income	1,313	1,132	16.0%
Other noninterest income	460	359	28.1%
Total noninterest income	<u>\$ 3,090</u>	<u>\$ 2,134</u>	<u>44.8%</u>

The increase in treasury management and other deposit service charges for the three months ended March 31, 2018 compared to the same period in 2017 is driven primarily by transaction volume, which can fluctuate from period to period. Growth in the volume of our commercial deposit accounts was the primary contributor to the increase.

Similarly, loan commitment fees fluctuate based on customer activity and the timing of one-time, transaction related loan fees.

Tri-Net fees represent a line of business, implemented in the fourth quarter of 2016, which originates and sells commercial real estate loans to third-party investors. All of these loan sales transfer servicing rights to the buyer. The volume of loan sales has increased as this new line of business is being implemented.

Mortgage banking income consists of mortgage fee income from the origination and sale of mortgage loans. These mortgage fees are for loans originated in our markets that are subsequently sold to third-party investors. All of these loan sales transfer servicing rights to the buyer. Mortgage origination fees will fluctuate from quarter to quarter as the rate environment changes. Mortgage banking income increased 16.0% from 2017 to 2018 due to higher profit margins on loans sold.

Other noninterest income increased 28.1% from 2017 to 2018 primarily due to growth in our wealth management line of business.

Noninterest Expense

Our total noninterest expense increase reflects expenses that we have incurred as we build the foundation to support our recent growth and enable us to execute our growth strategy. The following table presents the primary components of noninterest expense for the periods indicated.

	Three Months Ended March 31,		2018-2017 Percent Increase (Decrease)
	2018	2017	
Noninterest expense:			
Salaries and employee benefits	\$ 6,257	\$ 5,086	23.0%
Data processing and software	798	621	28.5%
Professional fees	474	365	29.9%
Occupancy	521	449	16.0%
Equipment	539	496	8.7%
Regulatory fees	203	307	(33.9)%
Other operating	788	1,052	(25.1)%
Total noninterest expense	\$ 9,580	\$ 8,376	14.4%

Salaries and employee benefits increased \$1.2 million, or 23.0%, for the first quarter of 2018 compared with the same period of 2017. The increase is primarily related to increased incentive expense related to improved profitability and the addition of personnel associated with continued expansion in the Nashville MSA. The number of full-time employees increased from 168 at March 31, 2017 to 182 at March 31, 2018.

Data processing and software expense increased for the first quarter of 2018 compared with the same period of 2017 due to an increase in the volume of transactions and implementation of new software in our mortgage banking line of business.

Professional fees increased 29.9% for the first quarter of 2018 compared to the same period in 2017 due to increased legal fees related to outstanding litigation, more fully described in "Part II. Other Information, Item 1. Legal Proceedings."

The increase in occupancy expense from the first quarter of 2017 to the first quarter of 2018 is due to the new lease of our corporate headquarters which we moved into during the first quarter of 2017.

Other operating expense declined for the first quarter of 2018 compared to the same period in 2017 primarily because of one-time costs incurred in 2017 related to the move of our corporate headquarters.

Our efficiency ratio (ratio of noninterest expense to the sum of net interest income and noninterest income) was 68.8% for the three months ended March 31, 2018 compared to 69.4% for the three months ended March 31, 2017. The efficiency ratio measures the amount of expense that is incurred to generate a dollar of revenue. The efficiency ratio for the period ended March 31, 2018 was positively impacted by growth in our net interest income that outpaced increases in our expenses. For the three months ended March 31, 2018, our revenue base (net interest income plus noninterest income) grew at rate of approximately 1.1 times our noninterest expense.

Income Tax Provision

During the three months ended March 31, 2018, we recorded income tax expense of \$0.5 million compared to an income tax benefit of \$47 thousand for the three months ended March 31, 2017. Our income tax expense (benefit) for the period ended March 31, 2018 reflects an effective income tax rate of 13.1% compared to (16.5)% for the period ended March 31, 2017. Our effective tax rate differs from the statutory tax rate by our investments in municipal securities, company owned life insurance, state tax credits, net of the effect of certain non-deductible expenses and the recognition of excess tax benefits related to stock compensation.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions, including income tax consequences. In addition to other changes, the guidance changed the accounting for excess tax benefits and tax deficiencies from generally being recognized in additional paid-in capital to recognition as income tax expense or benefit in the period they occur. We adopted the new guidance in the first quarter of 2017. As a result, our income tax expense was reduced by \$363,000 and \$145,000 for the periods ended March 31, 2018 and 2017.

(b) Financial Condition

Balance Sheet

Total assets increased \$38.3 million, or 2.8%, from \$1.34 billion on December 31, 2017 to \$1.38 billion on March 31, 2018. Loans grew \$84.3 million, or 8.9%, in the first three months of 2018, offset by a decrease in cash of \$31.7 million, or 38.3%, for the same period. Loans held for sale decreased \$11.8 million, or 15.9%, during the first three months of 2018.

Total liabilities increased \$36.6 million, or 3.1%, from \$1.20 billion on December 31, 2017 to \$1.23 billion on March 31, 2018. Deposits increased \$7.7 million, or 0.7%. We increased our Federal Home Loan Bank advances \$30.0 million during the first three months of 2018 to help fund our loan growth.

Loans and Leases

The composition of loans and leases at March 31, 2018 and December 31, 2017 and the percentage of each classification to total loans are summarized as follows:

	March 31, 2018		December 31, 2017	
	Amount	Percent	Amount	Percent
Commercial real estate - owner occupied	\$ 131,741	12.8%	\$ 101,132	10.7%
Commercial real estate - non-owner occupied	258,016	25.0%	249,490	26.3%
Consumer real estate	104,224	10.1%	102,581	10.8%
Construction and land development	91,953	8.9%	82,586	8.7%
Commercial and industrial	408,353	39.5%	373,248	39.4%
Consumer	9,524	0.9%	6,862	0.7%
Other	28,750	2.8%	31,983	3.4%
Total loans	<u>\$ 1,032,561</u>	<u>100.0%</u>	<u>\$ 947,882</u>	<u>100.0%</u>

At March 31, 2018, our loan portfolio composition remained relatively consistent with the composition at December 31, 2017. The commercial real estate category includes owner-occupied commercial real estate loans which is similar in many ways to our commercial and industrial lending in that these loans are generally made to businesses on the basis of the cash flows of the business rather than on the valuation of the real estate.

Non-Performing Loans and Assets

Information summarizing non-performing assets, including non-accrual loans follows:

	March 31, 2018	December 31, 2017
Non-accrual loans	\$ 1,329	\$ 2,695
Troubled debt restructurings	1,190	1,207
Loans past due 90 days or more and still accruing	—	231
Non-performing loans	1,329	2,695
Foreclosed real estate	—	—
Non-performing assets	\$ 1,329	\$ 2,695
Non-performing loans as a percentage of total loans	0.13%	0.28%
Non-performing assets as a percentage of total assets	0.10%	0.20%

The decrease in non-accrual loans and non-performing assets experienced during the three months ended March 31, 2018 is primarily related to improvement in performance and our outlook of future performance for a \$1.2 million commercial real estate loan.

The following table sets forth the major classifications of non-accrual loans:

	March 31, 2018	December 31, 2017
Commercial real estate	\$ —	\$ 1,207
Consumer real estate	—	—
Construction and land development	—	—
Commercial and industrial	1,329	1,488
Consumer	—	—
Other	—	—
Total loans	<u>\$ 1,329</u>	<u>\$ 2,695</u>

(c) **Liquidity**

Liquidity risk is the risk that we will be unable to meet our obligations as they become due because of an inability to liquidate assets or obtain adequate funding. To manage liquidity risk, management has established a comprehensive management process for identifying, measuring, monitoring and controlling liquidity risk. Because of its critical importance to the viability of the Bank, liquidity risk management is fully integrated into our risk management processes. Critical elements of our liquidity risk management include: effective corporate governance consisting of oversight by the board of directors and active involvement by management; appropriate strategies, policies, procedures, and limits used to manage and mitigate liquidity risk; comprehensive liquidity risk measurement and monitoring systems (including assessments of the current and prospective cash flows or sources and uses of funds) that are commensurate with the complexity and business activities of the Bank; active management of intraday liquidity and collateral; an appropriately diverse mix of existing and potential future funding sources; adequate levels of highly liquid marketable securities free of legal, regulatory, or operational impediments, that can be used to meet liquidity needs in stressful situations; comprehensive contingency funding plans that sufficiently address potential adverse liquidity events and emergency cash flow requirements; and internal controls and internal audit processes sufficient to determine the adequacy of the institution's liquidity risk management process.

The role of liquidity management is to ensure funds are available to meet depositors' withdrawal and borrowers' credit demands while at the same time maximizing profitability. This is accomplished by balancing changes in demand for funds with changes in the supply of those funds. Liquidity is provided by short-term liquid assets that can be converted to cash, investment securities available-for-sale, various lines of credit available to us, and the ability to attract funds from external sources, principally deposits.

Our most liquid assets are comprised of cash and due from banks, available-for-sale marketable investment securities and federal funds sold. The fair value of the available-for-sale investment portfolio was \$189.6 million at March 31, 2018. We pledge portions of our investment securities portfolio to secure public fund deposits, derivative positions and Federal Home Loan Bank advances. At March 31, 2018, total investment securities pledged for these purposes comprised 64% of the estimated fair value of the entire investment portfolio, leaving \$69.8 million of unpledged securities.

We have a large base of non-maturity customer deposits, defined as demand, savings, and money market deposit accounts. At March 31, 2018, such deposits totaled \$956.9 million and represented 85% of our total deposits. Because these deposits are less volatile and are often tied to other products through long lasting relationships they do not put heavy pressure on liquidity.

Other sources of funds available to meet daily needs include FHLB advances. As a member of the FHLB of Cincinnati, the Company has access to credit products offered by the FHLB. The Company views these borrowings as a low cost alternative to other time deposits. At March 31, 2018, available credit from the FHLB totaled \$75.8 million. Additionally, we had available federal funds purchased lines with correspondent banks totaling \$110.0 million at March 31, 2018.

The Parent Company's principal source of cash generation is dividends paid to it as the sole shareholder of the Bank. At March 31, 2018, the Bank was able to pay up to \$19.8 million in dividends to the Parent Company without regulatory approval subject to the ongoing capital requirements of the Bank.

Accordingly, management believes that our funding sources are at sufficient levels to satisfy our short-term and long-term liquidity needs.

(d) Capital Resources

At March 31, 2018, shareholders' equity totaled \$148.7 million, an increase of \$1.7 million since December 31, 2017. Accordingly, as of March 31, 2018, the Company and the Bank were well-capitalized under the regulatory framework for prompt corrective action. See the Consolidated Statement of Changes in Shareholders' Equity and Note 10 of the consolidated financial statements for further detail of the changes in equity since the end of 2017.

Off-Balance Sheet Arrangements

In the normal course of business, we enter into various transactions that, in accordance with GAAP, are not included in our consolidated balance sheet. We enter into these transactions to meet the financing needs of our clients. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in our consolidated balance sheets. Most of these commitments mature within two years and are expected to expire without being drawn upon. Standby letters of credit are included in the determination of the amount of risk-based capital that the Company and the Bank are required to hold.

We enter into contractual loan commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of our commitments to extend credit are contingent upon clients maintaining specific credit standards until the time of loan funding.

Standby letters of credit are written conditional commitments issued by us to guarantee the performance of a client to a third party. In the event that the client does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the client. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

We minimize our exposure to loss under loan commitments and standby letters of credit by subjecting them to the same credit approval and monitoring procedures as we do for on-balance sheet instruments. We assess the credit risk associated with certain commitments to extend credit and establish a liability for probable credit losses. The effect on our revenue, expenses, cash flows and liquidity of the unused portions of these commitments cannot be reasonably predicted because there is no guarantee that the lines of credit will be used.

Our off-balance sheet arrangements are summarized in Note 7 of the consolidated financial statements.

(e) **Non-GAAP Financial Measures**

This Report includes the following financial measures that have been prepared other than in accordance with generally accepted accounting principles in the United States (“non-GAAP financial measures”): tangible common equity, tangible common equity to total tangible assets and tangible common equity per share. The Company believes that these non-GAAP financial measures (i) provide useful information to management and investors that is supplementary to its financial condition, results of operations and cash flows computed in accordance with GAAP, (ii) enable a more complete understanding of factors and trends affecting the Company’s business, and (iii) allow investors to evaluate the Company’s performance in a manner similar to management, the financial services industry, bank stock analysts and bank regulators; however, the Company acknowledges that its non-GAAP financial measures have a number of limitations. As such, you should not view these disclosures as a substitute for results determined in accordance with GAAP, and they are not necessarily comparable to non-GAAP financial measures that other companies use.

The following table presents a reconciliation of tangible common equity, tangible common equity to total tangible assets and tangible common equity per share to the most directly comparable GAAP financial measures.

(in thousands, except per share data)	March 31, 2018	December 31, 2017
Total equity	\$ 148,693	\$ 146,946
Less core deposit intangible	(13)	(23)
Less goodwill	(6,219)	(6,219)
Less preferred equity (par value and additional paid-in capital)	(9,000)	(9,000)
Tangible common equity	\$ 133,461	\$ 131,704
Total assets	\$ 1,382,745	\$ 1,344,429
Less core deposit intangible	(13)	(23)
Less goodwill	(6,219)	(6,219)
Total tangible assets	\$ 1,376,513	\$ 1,338,187
Total shareholders' equity to total assets	10.75%	10.93%
Tangible common equity ratio	9.70%	9.84%
Total shares of common stock outstanding	11,773,358	11,582,026
Book value per share of common stock	\$ 11.87	\$ 11.91
Tangible book value per share of common stock	11.34	11.37

(f) Recently Issued Accounting Pronouncements

ASU 2014-09, Revenue from Contracts with Customers

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance was effective for the Company for reporting periods beginning after December 15, 2017 and had no significant impact on financial reporting.

The Company's revenue is comprised of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of the Company's revenues were not affected. The Company has performed an assessment of revenue contracts related to revenue streams that are within the scope of the standard. The accounting policies have not changed since the principles of revenue recognition from the ASU are consistent with existing guidance and current practices applied by our businesses. We have not identified material changes to the timing or amount of revenue recognition nor have we identified a significant need for material changes to disclosures.

ASU 2016-02, Leases

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.

We expect to adopt the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. We have started an initial evaluation of our leasing contracts and activities. We have also started developing our methodology to estimate the right-of-use assets and lease liabilities, which will be based on the present value of lease payments (the December 31, 2017 future minimum lease payments were \$14.6 million). We do not expect a material change to the timing of expense recognition, but we are early in the implementation process and will continue to evaluate the impact. We are evaluating our existing disclosures and may need to provide additional information as a result of adoption of the ASU.

ASU 2016-13, Financial Instruments – Credit Losses

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2019. Early adoption is permitted for all organizations for periods beginning after December 15, 2018.

The Company will apply the amendments to the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption is permitted beginning in first quarter 2019, we do not expect to elect that option. We are evaluating the impact of the ASU on our consolidated financial statements. In addition to our allowance for loan losses, we will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

ASU 2017-04, Simplifying the Test of Goodwill Impairment

In January 2017, the FASB amended the Goodwill and Other Topic of the Accounting Standards Codification to simplify the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for the Company for reporting periods beginning after December 15, 2019.

ASU 2017-09, Scope of Modification Accounting

In May 2017, the FASB amended the requirements in the Compensation—Stock Compensation Topic of the Accounting Standards Codification related to changes to the terms or conditions of a share-based payment award. The amendments provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments were effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted the amendments during the period ended March 31, 2018. These amendments did not have a material effect on the Company's financial statements.

ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB amended the requirements of the Derivatives and Hedging Topic of the Accounting Standards Codification to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments will be effective for the Company for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company adopted this standard December 1, 2017. However, there was no material effect on the financial statements.

ASU 2018-02, Income Statement: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB Issued (2018-02), Income Statement (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows Companies to reclassify the stranded effects in other comprehensive income to retained earnings as a result of the change in the tax rates under the Tax Reform Act. During the period ended December 31, 2017, the Company opted to early adopt this pronouncement by retrospective application to each period in which the effect of the change in the tax rate under the Tax Reform Act is recognized. The Company made an election to reclassify income tax effects of the Tax Reform Act, amounting to approximately \$259,000, from accumulated other comprehensive income to retained earnings. The impact of the reclassification from other comprehensive income to retained earnings was included in the Statement of Changes in Shareholders' Equity for the year ended December 31, 2017.

(g) Impact of Inflation

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with U.S. GAAP and practices within the banking industry which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Information required by this item is included in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Simulation Sensitivity Analysis."

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company, with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Report, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the Company's filings under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the period covered by this Report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is party to legal actions that are routine and incidental to its business. Given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to the Company's business, including laws and regulations governing consumer protection, fair lending, fair labor, privacy, information security and anti-money laundering and anti-terrorism laws, the Company, like all banking organizations, is subject to heightened legal and regulatory compliance and litigation risk. However, based upon available information and in consultation with legal counsel, management does not expect the ultimate disposition of any or a combination of these actions to have a material adverse effect on the Company's assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and/or results of operations.

Litigation Against Gaylon M. Lawrence & The Lawrence Group

On October 31, 2017, CapStar filed a complaint, captioned *CapStar Financial Holdings, Inc. v. Gaylon M. Lawrence & The Lawrence Group*, Case No. 3:17-cv-01421, in the U.S. District Court for the Middle District of Tennessee, in connection with Mr. Lawrence and The Lawrence Group's acquisition of CapStar stock. The complaint alleges that defendants violated Section 13(d) of the Securities Exchange Act of 1934 by filing materially false and misleading Schedules 13D regarding defendants' acquisition of a minority stake (1,156,675 shares) of CapStar stock. It also alleged that defendants violated the Change in Bank Control Act, 12 U.S.C. § 1817(j), by attempting to acquire control of CapStar without first receiving approval from the Federal Reserve, and also that defendants violated Tennessee Code Section 45-2-107 by controlling banks without having registered as a bank holding company.

By order dated December 18, 2017, the court granted CapStar's motion for expedited discovery, which is presently underway. Defendants have filed a motion to dismiss the action as well as a separate motion to stay, both of which remain pending.

Mr. Lawrence has also filed an Interagency Notice of Change in Control pursuant to the Change in Bank Control Act with the Federal Reserve on October 30, 2017, seeking permission to acquire up to 15% of the outstanding voting shares of CapStar's common stock. The Company has protested that notice. The Federal Reserve has twice extended the processing of Mr. Lawrence's filing.

Item 1A. Risk Factors

In evaluating an investment in the Company's securities, investors should consider carefully, among other things, information under the heading "Cautionary Note Regarding Forward-Looking Statements" in this Report as well as those factors that are detailed from time to time in the Company's periodic and current reports filed with the SEC, including those factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 under the heading "Item 1A. Risk Factors" and in the Company's Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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

Unregistered Sales of Equity Securities

The following table shows information relating to the repurchase of shares of common stock by the Company during the three months ended March 31, 2018.

	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plan	Maximum number of shares that may yet be purchased under the plan
January 1 - January 31	5,381	\$ 19.96	—	—
February 1 - February 28	19,956	19.61	—	—
March 1 - March 31	35,928	19.43	—	—
Total	61,265	\$ 19.53	—	—

- (1) Activity represents shares of stock withheld to pay taxes due upon vesting of restricted shares and exercise of stock options. This activity has no impact on the number of shares that may be purchased under a Board-approved plan.

Use of Proceeds

On September 27, 2016, the Company sold 1,688,049 shares of its common stock, including 387,750 shares purchased by the underwriters pursuant to the full exercise of their purchase option, in its initial public offering (“IPO”). In addition, certain selling shareholders participated in the IPO and sold an aggregate of 1,284,701 shares of the Company’s common stock.

The shares were sold at a public offering price of \$15.00 per share, resulting in aggregate gross proceeds of approximately \$44.6 million. The aggregate offering price for the shares sold by the Company was approximately \$25.3 million, and after deducting approximately \$1.6 million for the underwriting discount and approximately \$1.7 million of offering expenses paid to third parties, the Company received net proceeds of approximately \$21.9 million. The aggregate offering price for the shares sold by the selling shareholders was approximately \$19.3 million.

All of the shares were sold pursuant to our Registration Statement on Form S-1, as amended (File No. 333-213367), which was declared effective by the SEC on September 21, 2016. The offering did not terminate until all of the shares offered were sold. The Company made no payments to its directors, officers or persons owning ten percent or more of its common stock or to their associates, or to its affiliates in connection with the issuance and sale of the common stock. Keefe, Bruyette & Woods, Inc. and Sandler O’Neill & Partners, L.P. acted as lead book-running managers for the IPO. Our common stock is currently trading on the NASDAQ Global Select Market under the symbol “CSTR.”

There has been no material change in the planned use of proceeds from our IPO as described in our prospectus filed with the SEC on September 23, 2016 pursuant to Rule 424(b)(4) under the Securities Act. Pending application of the IPO proceeds, we have invested the net proceeds in short-term investments.

Item 5. Other Information

As mentioned in the Company’s definitive proxy statement that was filed with the SEC on March 19, 2018, the Company and Ms. Claire W. Tucker were negotiating a change to her employment agreement such that the change of control provision would be identical to those currently afforded Messrs. Anderson and Hogan. Accordingly, on April 26, 2018, the Company and the Bank entered into the Sixth Amended and Restated Executive Employment Agreement (the “Tucker Agreement”) with Ms. Tucker. Following the amendment, for a termination occurring within 12 months of a change in control, as defined in the Tucker Agreement, Ms. Tucker would receive payments equal to two times her base salary (payable in 24 equal monthly installments) and continuation of benefits for 24 months from termination, unless employment was terminated with “Cause” or by reason of “Disability” or the executive resigned without “Good Reason,” as such terms are defined in the Tucker Agreement. Prior to the amendment, the change of control provision provided that Ms. Tucker’s base salary would be continued through May 31, 2019 and healthcare coverage would be continued until she becomes eligible for Medicare (or other similar government health care coverage).

The description of the Tucker Agreement above does not purport to be complete and is qualified in its entirety by reference to the Tucker Agreement, a copy of which is filed as Exhibit 10.1 to this Report and incorporated herein by reference, and the further changes to the Tucker Agreement described below.

Thereafter on April 26, 2018, at the meeting of the boards of directors of the Company and the Bank held in connection with the Company’s annual shareholder meeting, the boards subsequently appointed Ms. Claire Tucker as the Chief Executive Officer of the Bank. As a result of such appointment, Mr. Dandridge Hogan will transition into the roles of President and Chief Operating Officer of the Bank and Ms. Tucker, in addition to her new role as Chief Executive Officer of the Bank, will continue in her roles with the Company as President and Chief Executive Officer. All of these changes were effective April 26, 2018.

In order to effect the changes in office, the Company, the Bank, and Ms. Tucker entered into a Seventh Amended and Restated Executive Employment Agreement (the “Restated Tucker Agreement”), and the Bank and Mr. Dandridge Hogan entered into a Fourth Amended and Restated Executive Employment Agreement (the “Restated Hogan Agreement”). The Restated Tucker Agreement reflects Ms. Tucker’s appointment to Chief Executive Officer of the Bank and certain technical updates to reflect her current salary level and other matters. Ms. Tucker’s base salary under the Restated Tucker Agreement is \$425,000, subject to adjustment by the board of directors, and she is eligible to participate in the Company’s Employee Benefit Plans (as defined in the Restated Tucker Agreement). The Restated Hogan Agreement reflects his change in title from Chief Executive Officer of the Bank to President and Chief Operating Officer of the Bank and extends the term of his employment to May 31, 2019. Mr. Hogan’s base salary under the Restated Hogan Agreement remains \$350,000, subject to adjustment by the board of directors, and he is eligible to participate in the Bank’s Employee Benefit Plans (as defined in the Restated Hogan Agreement).

The descriptions of the Restated Tucker Agreement and the Restated Hogan Agreement above do not purport to be complete and are qualified in their entirety by reference to the Restated Tucker Agreement and Restated Hogan Agreement, respectively, copies of which are filed as Exhibits 10.2 and 10.3, respectively, to this Report and incorporated herein by reference.

In addition, on April 5, 2018, the Bank and Mr. Christopher Tietz, the Chief Credit Officer of the Bank, entered into a First Amended and Restated Executive Employment Agreement (the "Restated Tietz Agreement"). The Restated Tietz Agreement extends the term of his employment to May 31, 2019 and reflects his current salary level. Mr. Tietz's base salary under the Restated Tietz Agreement is \$292,000, subject to adjustment by the board of directors, and he is eligible to participate in the Bank's Employee Benefit Plans (as defined in the Restated Tietz Agreement).

The description of the Restated Tietz Agreement above does not purport to be complete and is qualified in its entirety by reference to the Restated Tietz Agreement, a copy of which is filed as Exhibits 10.4 to this Report and incorporated herein by reference.

For the information required by Items 401(b), (d), (e) and Item 404(a) of Regulation S-K, please refer to the information under the captions "Proposal 1-Director Nominees-Claire W. Tucker", "Corporate Governance-Executive Officers-Dandridge W. Hogan", "Corporate Governance-Executive Officers-Christopher G. Tietz" and "Certain Relationships and Related Transactions" in the Company's definitive proxy statement that was filed with the SEC on March 19, 2018, which is incorporated herein by reference.

Item 6. Exhibits

Exhibit Number	Description
10.1	<u>Sixth Amended and Restated Executive Employment Agreement, dated April 26, 2018, between CapStar Financial Holdings, Inc., CapStar Bank, and Claire W. Tucker.*</u>
10.2	<u>Seventh Amended and Restated Executive Employment Agreement, dated April 26, 2018, between CapStar Financial Holdings, Inc., CapStar Bank, and Claire W. Tucker.*</u>
10.3	<u>Fourth Amended and Restated Executive Employment Agreement, dated April 26, 2018, between CapStar Bank and Dandrige W. Hogan.*</u>
10.4	<u>First Amended and Restated Executive Employment Agreement, dated April 5, 2018, between CapStar Bank and Christopher Tietz.*</u>
31.1	<u>Certification of Chief Executive Officer of CapStar Financial Holdings, Inc. pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended.*</u>
31.2	<u>Certification of Chief Financial Officer of CapStar Financial Holdings, Inc. pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended.*</u>
32.1	<u>Certification of Chief Executive Officer of CapStar Financial Holdings, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended.**</u>
32.2	<u>Certification of Chief Financial Officer of CapStar Financial Holdings, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended.**</u>
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Document.*

* Filed with this Quarterly Report on Form 10-Q.

** Furnished with this Quarterly Report on Form 10-Q.

SIGNATURES

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

CAPSTAR FINANCIAL HOLDINGS, INC.

By: /s/ Robert B. Anderson
Robert B. Anderson
Chief Financial Officer and Chief Administrative Officer

Date: May 2, 2018

**SIXTH AMENDED AND RESTATED
EXECUTIVE EMPLOYMENT AGREEMENT**

THIS SIXTH AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “**Amended Agreement**”) made and entered into on this 26th day of April, 2018 (the “**Effective Date**”), between **CapStar Financial Holdings, Inc.**, a Tennessee corporation established to be a bank holding company, headquartered in Nashville, Davidson County, Tennessee, hereinafter referred to as “**Company**” and **Claire W. Tucker**, hereinafter referred to as “**Executive**.”

WITNESSETH

WHEREAS, Executive has been employed by the Company as its President and Chief Executive Officer and previously was employed by CapStar Bank (the “**Bank**”) since its organization in 2007; and

WHEREAS, Executive and the Company previously entered into a Fifth Amended and Restated Employment Agreement on June 27, 2016 (the “**Prior Agreement**”) regarding the rendering of services for the periods set forth in the Prior Agreement; and

WHEREAS, the Company desires to amend and restate the Prior Agreement in order to continue the terms of the Prior Agreement and to add certain protections to Executive in the event of a change in control of the Company or the Bank; and

WHEREAS, Executive wishes to continue to serve in the employ of Company for the period and upon the terms and conditions provided for in this Amended Agreement.

NOW, THEREFORE, for the reasons set forth above and in consideration for the mutual promises and agreements set forth herein, Company and Executive agree as follows:

1. Amendment of Prior Agreement. Company and Executive hereby amend and restate the Prior Agreement in its entirety, and hereby substitute this Amended Agreement for the Prior Agreement.

2. Employment. Subject to continued approval of the Tennessee Department of Financial Institutions and other bank regulatory agencies having jurisdiction over the operations of Company, Company hereby agrees that effective on the Effective Date, Executive will continue to be employed by Company as its Chief Executive Officer pursuant to the terms of this Amended Agreement. Executive agrees to devote her best efforts and her full-time employment to the Company’s business and strategic planning and perform such other related activities and duties as the board of directors of Company (the “**Board**”) may, from time to time, determine and assign to Executive. The Executive’s services and decisions shall be subject to the review, modification and control of the Board. Service on the Board shall be included in the scope of Executive’s employment if she so serves.

3. Compensation. During the term of Executive's employment hereunder (the "Term"):

(a) Salary. For the services provided for herein, Company shall pay to Executive, and Executive shall accept from Company, a base salary of Three Hundred Seventy-Five Thousand and No/100 Dollars (\$375,000.00), per annum (Executive's "Base Salary"), subject to any and all withholdings and deductions required by law, payable in accordance with the customary payroll practices of Company. During the term of this Amended Agreement, Executive's Base Salary shall be reviewed from time to time by the Board, and, may be increased, but not decreased below the Base Salary, from time to time by the Board, based upon such factors as it may establish from time to time.

(b) Benefits. Company will provide to Executive, consistent with the terms and conditions of the respective plans, and pay the cost of, such employee benefits as are provided to Executive Officers of Company generally under benefit plans adopted by Company or Bank from time to time (Company or Bank's "Employee Benefit Plans"). These Employee Benefit Plans may include vacation days, sick days or other types of paid or unpaid leave, insurance programs, pension plans, profit sharing plans, bonus plans, stock option plans, restricted stock plans or other stock-based incentive plans, and other employee benefit plans. Provision of such benefit plans by Company or Bank is within the sole discretion of Company and Bank, and any such benefits may be amended, modified or discontinued at any time by Company or Bank.

(c) Reimbursements. Upon timely and well-documented requests by Executive submitted within one month from the payment of such expenses by Executive, Company will reimburse Executive for Executive's costs and expenses incurred in connection with the performance of Executive's duties or otherwise for the benefit of the Company or the Bank, specifically including any business expenses incurred with the prior approval of the Board. Such reimbursements shall be made in accordance with the policies established by Company from time to time, recognizing that Company may have different reimbursement policies for executive officers, and likewise may have different reimbursement policies for Executive as Chief Executive Officer. Such reimbursements may be approved by Company on a one-time basis for a particular expenditure, or on an ongoing basis, such as club memberships, automobile expense reimbursements, etc., but such ongoing approvals shall be subject to change from time to time.

4. Term of Employment; Renewal. The extended term of Executive's employment pursuant to this Amended Agreement (the "Renewal Term") shall commence on the Effective Date and shall end on May 31, 2019.

5. Termination of Employment.

(a) Termination By the Company. Notwithstanding any of the foregoing provisions in this Amended Agreement, the Company, by action of the Board, may terminate the employment of Executive hereunder without notice at any time for Cause or without Cause. For purposes of this Amended Agreement, "Cause" includes, but is not limited to: (i) any material

breach of the terms of this Amended Agreement which negatively impacts Company; (ii) personal dishonesty, fraud, disloyalty, or theft; (iii) disclosure of Company's confidential information except in the course of performing her duties while employed by the Company; (iv) willful illegal or disruptive conduct which impairs the reputation, goodwill or business position of the Company; (v) breach of fiduciary duty involving personal profit; (vi) any order or request for removal of Executive by any regulatory authority having jurisdiction over Company; (vii) or Executive's disability, as defined in any disability insurance policy with benefits payable to Executive, or if there is no such disability insurance policy, then as defined in Company or Bank's established policy applicable to executive officers ("Disability"). Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of a majority of the members of the Board at a duly constituted meeting of the Board, finding that in the good faith opinion of the Board, Executive was guilty of conduct justifying Termination for Cause and specifying the reasons therefor. The Executive shall have the right to appear and defend Executive at any meeting of the Board at which such a resolution is considered.

(b) For Cause. In the event of a termination by Company for Cause, the Executive shall be entitled to receive only the compensation that is earned and accrued as of the date of termination but no other monies or benefits except that: (A) in the case of Executive's Disability, if no Disability Plan or Disability Insurance Policy is in place, Executive shall receive fifty per cent (50%) of her base pay for a period not to exceed twenty four (24) weeks; and (B) Executive shall be entitled to receive any extended benefits provided to all employees of Company or Bank, or required by law, such as COBRA health insurance coverage, etc.

(c) Without Cause. In the event that: (A) Company terminates executive's employment hereunder without cause; or (B) Company engages in conduct that constitutes Good Reason, then Executive shall be entitled to resign from her employment with Company, and continue to receive her Base Salary, payable as before such termination, through May 31, 2019, unless she is terminated on or before May 31, 2017, in which case she will continue to receive her Base Salary through May 31, 2020; subject to Section 13 hereof, to continue to receive such health care insurance as may then be provided to Executive pursuant to its Employee benefit plans until such time as Executive is eligible for Medicare, or some similar health care coverage provided by state or federal governments; and shall receive all benefits and reimbursements accrued and payable to Executive at the time of termination of her employment hereunder, including any stock or payments to which Executive is entitled under and subject to the terms of all incentive plans in which Executive participates (including and subject to the terms of each and any individual grant or award agreement), including stock option plans, restricted stock plans, performance share plans, and any other stock-based or cash-based incentive plans and the individual grant or award agreements under such plans (collectively Executive's "Severance Pay"). Notwithstanding the foregoing, if Company offers and Executive voluntarily accepts terms of employment that would otherwise constitute Good Reason, then Executive shall be deemed to have waived her right to resign and receive Severance Pay. Upon termination of Executive's employment hereunder for any reason (other than by Company for Cause), whether voluntarily by Executive or by termination by Company without Cause, Executive shall continue to be bound by the terms of the confidentiality agreement contained in Section 8 hereof, the

covenant not to compete contained in Section 9 hereof, and the non-solicitation provisions contained in Sections 10 and 11 hereof. In the event Executive's employment hereunder is terminated by Company for Cause, Executive shall not be bound by the covenant not to compete in Section 9 hereof.

(d) By Executive. Notwithstanding any of the foregoing provisions in this Amended Agreement, Executive may terminate the employment of Executive hereunder without notice at any time. In the event of a termination by Executive for any reason other than Good Reason, including the death or Disability of Executive, the Executive shall be entitled to receive only the compensation that is earned and benefits and reimbursements accrued as of the date of termination but no other monies or benefits other than continuing benefits under any retirement plan, disability insurance policy, or life insurance policy payable by virtue of the retirement, death or disability of Executive having occurred prior to such termination of employment. Upon termination of Executive's employment hereunder for whatever reason, Executive shall continue to be bound by the terms of the confidentiality agreement contained in Section 8 hereof, the covenant not to compete contained in Section 9 hereof, and the non-solicitation provisions contained in Sections 10 and 11 hereof.

6. Change in Control. Capitalized terms used in this Section 6 or in Section 7 but not otherwise defined in this Section 6 or in Section 7 shall have the meanings ascribed to them in Section 12.

(a) Entitlement to Benefits upon Termination. Subject to Section 13 hereof, if during the Protection Period a Qualifying Termination of Executive's employment occurs, the Company shall pay to Executive the Change in Control benefits described in this Section 6. Change in Control benefits shall not be payable if Executive's employment is terminated (i) for Cause, (ii) by Executive voluntarily without Good Reason or (iii) by reason of Disability. In addition, the Change in Control benefits shall not be payable if Executive's employment is terminated for any or no reason prior to or following the Protection Period.

(b) Change in Control Payment and Benefits. Executive shall be entitled to receive a cash payment equal to two (2) times Executive's Base Salary in effect immediately prior to the date of termination (the "**Change in Control Payment**"), which shall be paid in twenty-four (24) equal monthly payments commencing on the first business day of the first month following the date of termination. Subject to Section 13 hereof, if a Qualifying Termination of Executive's employment occurs during the Protection Period, the Company or the Bank shall maintain for the remaining duration of the Protection Period Executive's health insurance coverage under any applicable Employee Benefit Plans, including any insurance policy held by the Company or the Bank, and pay the employer's portion of such coverage, with the intent of the parties being that Executive shall continue to receive such health insurance coverage for a period of twenty-four (24) months following a Change in Control. Subject to Section 13 hereof, Executive shall have the right to continue COBRA health insurance coverage at the end of the Protection Period.

7. Compliance with Section 409A.

(a) Executive shall not have any right to make any election regarding the time or form of any payment due under this Agreement.

(b) A payment of any amount or benefit hereunder that is (i) subject to Code Section 409A, and (ii) to be made because of a termination of employment shall not be made unless such termination is also a “separation from service” within the meaning of Code Section 409A and the regulations promulgated thereunder and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment,” “resignation” or like terms shall mean “separation from service” within the meaning of Code Section 409A. Notwithstanding any provision of this Agreement to the contrary, if at the time of Executive’s “separation from service” Executive is a “specified employee” (within the meaning of Code Section 409A), then to the extent that any amount to which Executive is entitled in connection with her separation from service is subject to Code Section 409A, payments of such amounts to which Executive would otherwise be entitled during the six month period following the separation from service will be accumulated and paid in a lump sum on the earlier of (i) the first day of the seventh month after the date of the separation from service, or (ii) the date of Executive’s death. This paragraph shall apply only to the extent required to avoid Executive’s incurrence of any additional tax or interest under section 409A or any regulations or Treasury guidance promulgated thereunder.

(c) Notwithstanding any provision of this Agreement or any other arrangement to the contrary, to the extent that any payment to Executive under the terms of this Agreement or any other arrangement would constitute an impermissible acceleration or deferral of payments under Code Section 409A of the or any regulations or Treasury guidance promulgated thereunder, or under the terms of any applicable plan, program, arrangement or policy of Company, such payments shall be made no earlier or later than at such times allowed under Code Section 409A or the terms of such plan, program, arrangement or policy.

(d) Any payments provided in this Agreement or any other arrangement subject to Code Section 409A as an installment of payments or benefits, is intended to constitute a separately identified “payment” for purposes of Treas. Reg. § 1.409A-2(b)(2)(i).

8. Confidentiality. Executive shall not, at any time or in any manner, during or after the Term, either directly or indirectly, divulge, disclose or communicate to any person, firm or corporation in any manner, whatsoever, any material information concerning any matters affecting or relating to the business of Company, except in the course of performing her duties while employed by Company or the Bank. This includes, without limitation, the name of its clients, customers or suppliers, the terms and conditions of any contract to which Company or the Bank is a party or any other information concerning the business of Company or the Bank, its manner or operations or its plans for the future without regard to whether all of the foregoing matters will be deemed confidential, material or important. Executive further agrees that she shall continue to be bound by the provisions of this paragraph following any termination of Executive’s employment pursuant to this Amended Agreement.

9. Covenant Not to Compete. During the Term and for the period of twenty-four (24) months thereafter, upon termination of Executive’s employment hereunder for any reason (other than by Company for Cause), whether voluntarily by Executive or by termination by the Company without Cause, and whether before or after a Change in Control, Executive agrees that Executive will not be employed by, consult with, or directly or indirectly own, become interested

in, or become involved in any manner whatsoever in any business (including any bank or other financial institution in organization) which is or will be similar to or competitive with any aspect of the business of Company or the Bank which operates a bank branch or other business location in Davidson or Williamson Counties, Tennessee, or in any other county in Tennessee or any other state in which Company or the Bank operates a bank branch or other business location, determined as of the date of termination of Executive's employment with Company. Executive agrees that should a court find the geographical scope of this covenant unreasonably broad, such court should nevertheless enforce this covenant to the extent that it deems reasonable. Executive specifically acknowledges and agrees that the foregoing restriction on competition with Company will not prevent Executive from obtaining gainful employment following termination of employment with Company and is a reasonable restriction upon Executive's ability to compete with Company and to secure such gainful employment. In the event Executive's employment hereunder is terminated by Company for Cause, Executive shall not be bound by the covenant not to compete in this Section 9.

10. Non-Solicitation Covenant. Executive agrees that for a period of two (2) years following the termination of her employment with Company, she will not contact or solicit, directly or indirectly, any customer or account that was a customer or account of Company within twelve (12) months prior to the termination of Executive's employment with Company. Executive further agrees that for a period of two (2) years following the termination of her employment with Company, she will not contact or solicit, directly or indirectly, any employee or person who was an employee of Company or Bank within twelve (12) months prior to the termination of Executive's employment with Company. The parties agree that these covenants are intended to prohibit Executive from engaging in such proscribed activities as an owner, partner, director, officer, executive, consultant, stockholder, agent, salesperson, or in any other capacity for any person, partnership, firm, corporation or other entity (including any financial institution in organization) unless she receives the express written consent of the Board. Executive specifically acknowledges and agrees that the foregoing restriction on competition with Company will not prevent Executive from obtaining gainful employment following termination of her employment with Company and is a reasonable restriction upon Executive's ability to compete with Company and to secure such gainful employment.

11. No Enticement of Officers. Executive shall not, directly or indirectly, entice or induce, or attempt to entice or induce any Officer of Company or the Bank to leave such employment during the term of this Agreement or within two (2) years thereafter.

12. Certain Definitions. Whenever used in this Agreement and not otherwise defined herein, the following terms shall have the meanings set forth below:

(a) **"Change in Control"** means a transaction or circumstance in which any of the following have occurred, provided that the board of directors of the Company (the **"Company Board"**) shall have determined that any such transaction or circumstance has resulted in a Change in Control, as defined in this paragraph, which determination shall be made in a manner consistent with Treas. Reg. § 1.409A-3(i)(5):

- (i) the date that any person, or persons acting as a group, as described in Treas. Reg. § 1.409A-3(i)(5) (a "Person"), other than a trustee or other

fiduciary holding securities under an employee benefit plan of the Company or a corporation controlling the Company or owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the beneficial owner (as defined in Rule 13d-3 under the Securities and Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company representing more than 40% of the total voting power represented by the Company's then outstanding voting securities (as defined below);

- (ii) the merger, acquisition or consolidation of the Company or the Bank with any corporation pursuant to which the other corporation immediately after such merger, acquisition or consolidation owns more than 50% of the voting securities (defined as any securities which vote generally in the election of its directors) of the Company or the Bank outstanding immediately prior thereto or more than 50% of the Company's or the Bank's total fair market value immediately prior thereto; or
- (iii) the date that a majority of the members of the Company Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company Board before the date of the appointment or election.

(b)“**Code**” means the Internal Revenue Code of 1986, as the same may be from time to time amended.

(c)“**Good Reason**” means any of the following:

- (i) Executive's then current base salary is reduced;
- (ii) Executive's work or reporting responsibilities are materially diminished, or
- (iii) Executive is relocated to a work location more than thirty (30) miles from the Executive's then current work location.

(d)“**Protection Period**” means the period commencing on the date that a Change in Control occurs, and ending on the last day of the twelfth (12th) calendar month following the calendar month during which such Change in Control occurred. Anything in this Agreement to the contrary notwithstanding, if a Change in Control occurs, and if the date of termination with respect to Executive's employment by the Company occurs prior to the date on which the Change in Control occurs, unless it is reasonably demonstrated by the Company that such termination of employment (i) was not at the request of a third party who has taken steps reasonably calculated to effect the Change in Control and (ii) did not otherwise arise in connection with or in anticipation of the Change in Control, then for all purposes of this Agreement the “Protection Period” shall be deemed to have commenced on the date immediately preceding the date of termination of Executive.

(e)“**Qualifying Termination**” means:

(i) an involuntary termination of Executive's employment by the Company (or any successor to Company or the Bank after the Change in Control) for reasons other than Cause (and other than on account of Executive's Disability); or

(ii) a voluntary termination of employment by Executive for Good Reason.

13. COBRA Health Insurance Coverage. Notwithstanding any provision of this Agreement to the contrary, nothing in this Agreement shall be interpreted to require Company to extend COBRA health insurance coverage benefits to Executive in violation of applicable law. In the event that, following termination of Executive's employment with Company, Executive shall be entitled to receive extended insurance benefits pursuant to the terms of this Agreement, Executive shall be required to elect COBRA health insurance coverage and, thereafter, Company shall provide such coverage to Executive through a COBRA subsidy; provided, however, that at such time as Company is no longer permitted to extend COBRA health insurance coverage benefits to Executive under applicable law, Company shall provide a cash payment to Executive in lieu of such subsidy (with each cash payment being equal to the amount of the last COBRA subsidy provided to Executive prior to Executive's termination pursuant to the terms hereof), and Executive shall elect and obtain her own health insurance coverage.

14. Remedies. Executive acknowledges and agrees that the breach or threatened breach of any of the provisions of Sections 8, 9, 10 or 11 of this Agreement will cause irreparable harm to Company which cannot be adequately compensated by the payment of damages. Accordingly, Executive covenants and agrees that Company, in addition to any other rights or remedies which Company may have, will be entitled to such equitable and injunctive relief as may be available from any court of competent jurisdiction to restrain Executive from breaching or threatening to breach any of the provisions of this Amended Agreement, without the requirement that Company post bond or other surety. Such right to obtain injunctive relief may be exercised at the option of Company in addition to, concurrently with, prior to, after, or in lieu of the exercise of any other rights or remedies which Company may have as a result of any such breach or threatened breach.

15. Entire Agreement. Company and Executive agree that this Amended Agreement contains the complete agreement concerning the employment arrangement, written or oral, between them and that this Amended Agreement supersedes all prior negotiations, practices and/or agreements. Neither party has made any representations that are not contained herein on which either party has relied in entering into this Amended Agreement.

16. Assignment. It is agreed that Company shall have the right to assign this Amended Agreement to any purchaser of the business of or substantially all of the assets of Company. This is a personal services contract, and may not be assigned by Executive.

17. Modification. This Amended Agreement shall not be modified or amended except by a writing duly executed by both parties. No waiver of any provision of this Amended Agreement shall be effective unless the waiver is in writing and duly executed by both parties.

18. Waiver of Breach. The waiver by a party of the breach of any provision of this Amended Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach of the same of any other provision hereof by that party.

19. Severability. The provisions of this Amended Agreement shall be severable, and the invalidity of any provisions or portion thereof shall not affect the validity of the other provisions.

20. Choice of Law. This Amended Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee.

21. Notice. Any notice required or authorized hereunder shall be deemed delivered when delivered to Executive or to an executive officer of Company, or when deposited, postage prepaid, in the United States mail certified, with return receipt requested, addressed to the parties as follows:

Executive: Claire W. Tucker
801 Kathridge Ct.
Brentwood, TN 37027

with a copy (which copy shall not constitute notice) to:

Michael D. Sontag
Bass, Berry & Sims
150 Third Avenue South, Suite 2800
Nashville, TN 37201

Robert Horton

Bass, Berry & Sims
150 Third Avenue South, Suite 2800
Nashville, TN 37201

Company: CapStar Financial Holdings, Inc.
201 4th Ave. North, Suite 950
Nashville, TN 37219

Attn: Secretary

with a copy (which copy shall not constitute notice) to:

Waller Lansden Dortch & Davis, LLP
Attn: Chase Cole
511 Union Street, Suite 2700
Nashville, TN 37219

22. Survival. The provisions of Sections 8, 9, 10, 11, 14 and 18 of this Amended Agreement shall survive any termination of this Amended Agreement.

23. Withholding. Company shall be entitled to withhold from amounts payable to Executive hereunder such amounts as may be required by applicable law.

[Execution Page follows]

EXECUTION PAGE

IN WITNESS WHEREOF, the parties have caused this Amended Agreement to be executed and delivered as of the day and date first written above.

COMPANY:: EXECUTIVE:

CapStar Financial Holdings, Inc.

/s/ Denny Bottorff
Denny Bottorff, Chairman of the Board

/s/ Claire Tucker
Claire Tucker

**SEVENTH AMENDED AND RESTATED
EXECUTIVE EMPLOYMENT AGREEMENT**

THIS SEVENTH AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “**Amended Agreement**”) made and entered into on this 26th day of April, 2018 (the “**Effective Date**”), between **CapStar Financial Holdings**, a Tennessee corporation established to be a bank holding company, headquartered in Nashville, Davidson County, Tennessee, (the “**Company**”) and **CapStar Bank**, a Tennessee banking corporation headquartered in Nashville, Davidson County, Tennessee, (the “**Bank**”) (the Company and Bank together referred to herein as “**CapStar**”) and **Claire W. Tucker**, hereinafter referred to as “**Executive.**”

WITNESSETH

WHEREAS, Executive has been employed by the Company as its President and Chief Executive Officer and previously was employed by the Bank since its organization in 2007; and

WHEREAS, Executive and the Company previously entered into a Sixth Amended and Restated Employment Agreement on or about April 26, 2018 (the “**Prior Agreement**”) regarding the rendering of services for the periods set forth in the Prior Agreement; and

WHEREAS, the Company desires to amend and restate the Prior Agreement in order to continue Executive’s employment as President and Chief Executive Officer of the Company and to add the title of Chief Executive Officer of the Bank; and

WHEREAS, Executive wishes to continue to serve in the employ of Company and the Bank for the period and upon the terms and conditions provided for in this Amended Agreement.

NOW, THEREFORE, for the reasons set forth above and in consideration for the mutual promises and agreements set forth herein, CapStar and Executive agree as follows:

1. Amendment of Prior Agreement. CapStar and Executive hereby amend and restate the Prior Agreement in its entirety, and hereby substitute this Amended Agreement for the Prior Agreement.

2. Employment. Subject to continued approval of the Tennessee Department of Financial Institutions and other bank regulatory agencies having jurisdiction over the operations of CapStar, CapStar hereby agrees that effective on the Effective Date, Executive will continue to be employed by Company as its President and Chief Executive Officer and will become employed by Bank as its Chief Executive Officer pursuant to the terms of this Amended Agreement. Executive agrees to devote her best efforts and her full-time employment to CapStar’s business and strategic planning and perform such other related activities and duties as the board of directors of Company (the “**Board**”) may, from time to time, determine and assign to Executive. The Executive’s services and decisions shall be subject to the review, modification and control of the Board. Service on the Board shall be included in the scope of Executive’s employment if she so serves.

3. Compensation. During the term of Executive's employment hereunder (the "Term"):

(a) Salary. For the services provided for herein, CapStar shall pay to Executive, and Executive shall accept from CapStar, a base salary of Four Hundred Twenty-Five Thousand and No/100 Dollars (\$425,000.00), per annum (Executive's "Base Salary"), subject to any and all withholdings and deductions required by law, payable in accordance with the customary payroll practices of CapStar. During the term of this Amended Agreement, Executive's Base Salary shall be reviewed from time to time by the Board, and, may be increased, but not decreased below the Base Salary, from time to time by the Board, based upon such factors as it may establish from time to time.

(b) Benefits. CapStar will provide to Executive, consistent with the terms and conditions of the respective plans, and pay the cost of, such employee benefits as are provided to Executive Officers of CapStar generally under benefit plans adopted by CapStar from time to time (CapStar's "Employee Benefit Plans"). These Employee Benefit Plans may include vacation days, sick days or other types of paid or unpaid leave, insurance programs, pension plans, profit sharing plans, bonus plans, stock option plans, restricted stock plans or other stock-based incentive plans, and other employee benefit plans. Provision of such benefit plans by CapStar is within the sole discretion of CapStar, and any such benefits may be amended, modified or discontinued at any time by CapStar.

(c) Reimbursements. Upon timely and well-documented requests by Executive submitted within one month from the payment of such expenses by Executive, CapStar will reimburse Executive for Executive's costs and expenses incurred in connection with the performance of Executive's duties or otherwise for the benefit of CapStar, specifically including any business expenses incurred with the prior approval of the Board. Such reimbursements shall be made in accordance with the policies established by Company from time to time, recognizing that CapStar may have different reimbursement policies for executive officers, and likewise may have different reimbursement policies for Executive as President and Chief Executive Officer. Such reimbursements may be approved by CapStar on a one-time basis for a particular expenditure, or on an ongoing basis, such as club memberships, automobile expense reimbursements, etc., but such ongoing approvals shall be subject to change from time to time.

4. Term of Employment; Renewal. The extended term of Executive's employment pursuant to this Amended Agreement (the "Renewal Term") shall commence on the Effective Date and shall end on May 31, 2019.

5. Termination of Employment.

(a) Termination By CapStar. Notwithstanding any of the foregoing provisions in this Amended Agreement, CapStar, by action of the Board, may terminate the employment of Executive hereunder without notice at any time for Cause or without Cause. For purposes of this Amended Agreement, "Cause" includes, but is not limited to: (i) any material breach of the terms of this Amended Agreement which negatively impacts CapStar; (ii) personal dishonesty, fraud,

disloyalty, or theft; (iii) disclosure of CapStar's confidential information except in the course of performing her duties while employed by CapStar; (iv) willful illegal or disruptive conduct which impairs the reputation, goodwill or business position of CapStar; (v) breach of fiduciary duty involving personal profit; (vi) any order or request for removal of Executive by any regulatory authority having jurisdiction over CapStar; (vii) or Executive's disability, as defined in any disability insurance policy with benefits payable to Executive, or if there is no such disability insurance policy, then as defined in CapStar's established policy applicable to executive officers ("Disability"). Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of a majority of the members of the Board at a duly constituted meeting of the Board, finding that in the good faith opinion of the Board, Executive was guilty of conduct justifying Termination for Cause and specifying the reasons therefor. The Executive shall have the right to appear and defend Executive at any meeting of the Board at which such a resolution is considered.

(b) For Cause. In the event of a termination by Company for Cause, the Executive shall be entitled to receive only the compensation that is earned and accrued as of the date of termination but no other monies or benefits except that: (A) in the case of Executive's Disability, if no Disability Plan or Disability Insurance Policy is in place, Executive shall receive fifty per cent (50%) of her base pay for a period not to exceed twenty four (24) weeks; and (B) Executive shall be entitled to receive any extended benefits provided to all employees of CapStar, or required by law, such as COBRA health insurance coverage, etc.

(c) Without Cause. In the event that: (A) CapStar terminates Executive's employment hereunder without cause; or (B) CapStar engages in conduct that constitutes Good Reason, then Executive shall be entitled to resign from her employment with CapStar, and continue to receive her Base Salary, payable as before such termination, through May 31, 2019; subject to Section 13 hereof, to continue to receive such health care insurance as may then be provided to Executive pursuant to its Employee benefit plans until such time as Executive is eligible for Medicare, or some similar health care coverage provided by state or federal governments; and shall receive all benefits and reimbursements accrued and payable to Executive at the time of termination of her employment hereunder, including any stock or payments to which Executive is entitled under and subject to the terms of all incentive plans in which Executive participates (including and subject to the terms of each and any individual grant or award agreement), including stock option plans, restricted stock plans, performance share plans, and any other stock-based or cash-based incentive plans and the individual grant or award agreements under such plans (collectively Executive's "Severance Pay"). Notwithstanding the foregoing, if CapStar offers and Executive voluntarily accepts terms of employment that would otherwise constitute Good Reason, then Executive shall be deemed to have waived her right to resign and receive Severance Pay. Upon termination of Executive's employment hereunder for any reason (other than by Company for Cause), whether voluntarily by Executive or by termination by CapStar without Cause, Executive shall continue to be bound by the terms of the confidentiality agreement contained in Section 8 hereof, the covenant not to compete contained in Section 9 hereof, and the non-solicitation provisions contained in Sections 10 and 11 hereof. In the event Executive's employment hereunder is terminated by CapStar for Cause, Executive shall not be bound by the covenant not to compete in Section 9 hereof.

(d) By Executive. Notwithstanding any of the foregoing provisions in this Amended Agreement, Executive may terminate the employment of Executive hereunder without notice at any time. In the event of a termination by Executive for any reason other than Good Reason, including the death or Disability of Executive, the Executive shall be entitled to receive only the compensation that is earned and benefits and reimbursements accrued as of the date of termination but no other monies or benefits other than continuing benefits under any retirement plan, disability insurance policy, or life insurance policy payable by virtue of the retirement, death or disability of Executive having occurred prior to such termination of employment. Upon termination of Executive's employment hereunder for whatever reason, Executive shall continue to be bound by the terms of the confidentiality agreement contained in Section 8 hereof, the covenant not to compete contained in Section 9 hereof, and the non-solicitation provisions contained in Sections 10 and 11 hereof.

6. Change in Control. Capitalized terms used in this Section 6 or in Section 7 but not otherwise defined in this Section 6 or in Section 7 shall have the meanings ascribed to them in Section 12.

(a) Entitlement to Benefits upon Termination. Subject to Section 13 hereof, if during the Protection Period a Qualifying Termination of Executive's employment occurs, CapStar shall pay to Executive the Change in Control benefits described in this Section 6. Change in Control benefits shall not be payable if Executive's employment is terminated (i) for Cause, (ii) by Executive voluntarily without Good Reason or (iii) by reason of Disability. In addition, the Change in Control benefits shall not be payable if Executive's employment is terminated for any or no reason prior to or following the Protection Period.

(b) Change in Control Payment and Benefits. Executive shall be entitled to receive a cash payment equal to two (2) times Executive's Base Salary in effect immediately prior to the date of termination (the "**Change in Control Payment**"), which shall be paid in twenty-four (24) equal monthly payments commencing on the first business day of the first month following the date of termination. Subject to Section 13 hereof, if a Qualifying Termination of Executive's employment occurs during the Protection Period, CapStar shall maintain for the remaining duration of the Protection Period Executive's health insurance coverage under any applicable Employee Benefit Plans, including any insurance policy held by CapStar, and pay the employer's portion of such coverage, with the intent of the parties being that Executive shall continue to receive such health insurance coverage for a period of twenty-four (24) months following a Change in Control. Subject to Section 13 hereof, Executive shall have the right to continue COBRA health insurance coverage at the end of the Protection Period.

7. Compliance with Section 409A.

(a) Executive shall not have any right to make any election regarding the time or form of any payment due under this Agreement.

(b) A payment of any amount or benefit hereunder that is (i) subject to Code Section 409A, and (ii) to be made because of a termination of employment shall not be made

unless such termination is also a “separation from service” within the meaning of Code Section 409A and the regulations promulgated thereunder and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment,” “resignation” or like terms shall mean “separation from service” within the meaning of Code Section 409A. Notwithstanding any provision of this Agreement to the contrary, if at the time of Executive’s “separation from service” Executive is a “specified employee” (within the meaning of Code Section 409A), then to the extent that any amount to which Executive is entitled in connection with her separation from service is subject to Code Section 409A, payments of such amounts to which Executive would otherwise be entitled during the six month period following the separation from service will be accumulated and paid in a lump sum on the earlier of (i) the first day of the seventh month after the date of the separation from service, or (ii) the date of Executive’s death. This paragraph shall apply only to the extent required to avoid Executive’s incurrence of any additional tax or interest under section 409A or any regulations or Treasury guidance promulgated thereunder.

(c) Notwithstanding any provision of this Agreement or any other arrangement to the contrary, to the extent that any payment to Executive under the terms of this Agreement or any other arrangement would constitute an impermissible acceleration or deferral of payments under Code Section 409A of the or any regulations or Treasury guidance promulgated thereunder, or under the terms of any applicable plan, program, arrangement or policy of CapStar, such payments shall be made no earlier or later than at such times allowed under Code Section 409A or the terms of such plan, program, arrangement or policy.

(d) Any payments provided in this Agreement or any other arrangement subject to Code Section 409A as an installment of payments or benefits, is intended to constitute a separately identified “payment” for purposes of Treas. Reg. § 1.409A-2(b)(2)(i).

8. Confidentiality. Executive shall not, at any time or in any manner, during or after the Term, either directly or indirectly, divulge, disclose or communicate to any person, firm or corporation in any manner, whatsoever, any material information concerning any matters affecting or relating to the business of CapStar, except in the course of performing her duties while employed by CapStar. This includes, without limitation, the name of its clients, customers or suppliers, the terms and conditions of any contract to which CapStar is a party or any other information concerning the business of CapStar, its manner or operations or its plans for the future without regard to whether all of the foregoing matters will be deemed confidential, material or important. Executive further agrees that she shall continue to be bound by the provisions of this paragraph following any termination of Executive’s employment pursuant to this Amended Agreement.

9. Covenant Not to Compete. During the Term and for the period of twenty-four (24) months thereafter, upon termination of Executive’s employment hereunder for any reason (other than by CapStar for Cause), whether voluntarily by Executive or by termination by CapStar without Cause, and whether before or after a Change in Control, Executive agrees that Executive will not be employed by, consult with, or directly or indirectly own, become interested in, or become involved in any manner whatsoever in any business (including any bank or other financial institution in organization) which is or will be similar to or competitive with any aspect

of the business of CapStar which operates a bank branch or other business location in Davidson or Williamson Counties, Tennessee, or in any other county in Tennessee or any other state in which CapStar operates a bank branch or other business location, determined as of the date of termination of Executive's employment with CapStar. Executive agrees that should a court find the geographical scope of this covenant unreasonably broad, such court should nevertheless enforce this covenant to the extent that it deems reasonable. Executive specifically acknowledges and agrees that the foregoing restriction on competition with CapStar will not prevent Executive from obtaining gainful employment following termination of employment with CapStar and is a reasonable restriction upon Executive's ability to compete with CapStar and to secure such gainful employment. In the event Executive's employment hereunder is terminated by CapStar for Cause, Executive shall not be bound by the covenant not to compete in this Section 9.

10. Non-Solicitation Covenant. Executive agrees that for a period of two (2) years following the termination of her employment with CapStar, she will not contact or solicit, directly or indirectly, any customer or account that was a customer or account of CapStar within twelve (12) months prior to the termination of Executive's employment with CapStar. Executive further agrees that for a period of two (2) years following the termination of her employment with CapStar, she will not contact or solicit, directly or indirectly, any employee or person who was an employee of CapStar within twelve (12) months prior to the termination of Executive's employment with CapStar. The parties agree that these covenants are intended to prohibit Executive from engaging in such proscribed activities as an owner, partner, director, officer, executive, consultant, stockholder, agent, salesperson, or in any other capacity for any person, partnership, firm, corporation or other entity (including any financial institution in organization) unless she receives the express written consent of the Board. Executive specifically acknowledges and agrees that the foregoing restriction on competition with CapStar will not prevent Executive from obtaining gainful employment following termination of her employment with CapStar and is a reasonable restriction upon Executive's ability to compete with CapStar and to secure such gainful employment.

11. No Enticement of Officers. Executive shall not, directly or indirectly, entice or induce, or attempt to entice or induce any Officer of CapStar to leave such employment during the term of this Agreement or within two (2) years thereafter.

12. Certain Definitions. Whenever used in this Agreement and not otherwise defined herein, the following terms shall have the meanings set forth below:

(a) **"Change in Control"** means a transaction or circumstance in which any of the following have occurred, provided that the board of directors of CapStar (the **"Company Board"**) shall have determined that any such transaction or circumstance has resulted in a Change in Control, as defined in this paragraph, which determination shall be made in a manner consistent with Treas. Reg. § 1.409A-3(i)(5):

- (i) the date that any person, or persons acting as a group, as described in Treas. Reg. § 1.409A-3(i)(5) (a "Person"), other than a trustee or other fiduciary holding securities under an employee benefit plan of CapStar or a corporation controlling CapStar or owned directly

or indirectly by the shareholders of CapStar in substantially the same proportions as their ownership of stock of CapStar, becomes the beneficial owner (as defined in Rule 13d-3 under the Securities and Exchange Act of 1934, as amended), directly or indirectly, of securities of the CapStar representing more than 40% of the total voting power represented by CapStar's then outstanding voting securities (as defined below);

- (ii) the merger, acquisition or consolidation of CapStar with any corporation pursuant to which the other corporation immediately after such merger, acquisition or consolidation owns more than 50% of the voting securities (defined as any securities which vote generally in the election of its directors) of CapStar outstanding immediately prior thereto or more than 50% of CapStar's total fair market value immediately prior thereto; or
- (iii) the date that a majority of the members of the Company Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company Board before the date of the appointment or election.

(b)“**Code**” means the Internal Revenue Code of 1986, as the same may be from time to time amended.

(c)“**Good Reason**” means any of the following:

- (i) Executive's then current base salary is reduced;
- (ii) Executive's work or reporting responsibilities are materially diminished, or
- (iii) Executive is relocated to a work location more than thirty (30) miles from the Executive's then current work location.

(d)“**Protection Period**” means the period commencing on the date that a Change in Control occurs, and ending on the last day of the twelfth (12th) calendar month following the calendar month during which such Change in Control occurred. Anything in this Agreement to the contrary notwithstanding, if a Change in Control occurs, and if the date of termination with respect to Executive's employment by CapStar occurs prior to the date on which the Change in Control occurs, unless it is reasonably demonstrated by CapStar that such termination of employment (i) was not at the request of a third party who has taken steps reasonably calculated to effect the Change in Control and (ii) did not otherwise arise in connection with or in anticipation of the Change in Control, then for all purposes of this Agreement the “Protection Period” shall be deemed to have commenced on the date immediately preceding the date of termination of Executive.

(e)“**Qualifying Termination**” means:

- (i) an involuntary termination of Executive’s employment by CapStar (or any successor to CapStar after the Change in Control) for reasons other than Cause (and other than on account of Executive’s Disability); or
- (ii) a voluntary termination of employment by Executive for Good Reason.

13. COBRA Health Insurance Coverage. Notwithstanding any provision of this Agreement to the contrary, nothing in this Agreement shall be interpreted to require CapStar to extend COBRA health insurance coverage benefits to Executive in violation of applicable law. In the event that, following termination of Executive’s employment with CapStar, Executive shall be entitled to receive extended insurance benefits pursuant to the terms of this Agreement, Executive shall be required to elect COBRA health insurance coverage and, thereafter, CapStar shall provide such coverage to Executive through a COBRA subsidy; provided, however, that at such time as CapStar is no longer permitted to extend COBRA health insurance coverage benefits to Executive under applicable law, CapStar shall provide a cash payment to Executive in lieu of such subsidy (with each cash payment being equal to the amount of the last COBRA subsidy provided to Executive prior to Executive’s termination pursuant to the terms hereof), and Executive shall elect and obtain her own health insurance coverage.

14. Remedies. Executive acknowledges and agrees that the breach or threatened breach of any of the provisions of Sections 8, 9, 10 or 11 of this Agreement will cause irreparable harm to CapStar which cannot be adequately compensated by the payment of damages. Accordingly, Executive covenants and agrees that CapStar, in addition to any other rights or remedies which CapStar may have, will be entitled to such equitable and injunctive relief as may be available from any court of competent jurisdiction to restrain Executive from breaching or threatening to breach any of the provisions of this Amended Agreement, without the requirement that CapStar post bond or other surety. Such right to obtain injunctive relief may be exercised at the option of CapStar in addition to, concurrently with, prior to, after, or in lieu of the exercise of any other rights or remedies which CapStar may have as a result of any such breach or threatened breach.

15. Entire Agreement. CapStar and Executive agree that this Amended Agreement contains the complete agreement concerning the employment arrangement, written or oral, between them and that this Amended Agreement supersedes all prior negotiations, practices and/or agreements. Neither party has made any representations that are not contained herein on which either party has relied in entering into this Amended Agreement.

16. Assignment. It is agreed that CapStar shall have the right to assign this Amended Agreement to any purchaser of the business of or substantially all of the assets of CapStar. This is a personal services contract, and may not be assigned by Executive.

17. Modification. This Amended Agreement shall not be modified or amended except by a writing duly executed by both parties. No waiver of any provision of this Amended Agreement shall be effective unless the waiver is in writing and duly executed by both parties.

18. Waiver of Breach. The waiver by a party of the breach of any provision of this Amended Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach of the same of any other provision hereof by that party.

19. Severability. The provisions of this Amended Agreement shall be severable, and the invalidity of any provisions or portion thereof shall not affect the validity of the other provisions.

20. Choice of Law. This Amended Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee.

21. Notice. Any notice required or authorized hereunder shall be deemed delivered when delivered to Executive or to an executive officer of CapStar, or when deposited, postage prepaid, in the United States mail certified, with return receipt requested, addressed to the parties as follows:

Executive: Claire W. Tucker
801 Kathridge Ct.
Brentwood, TN 37027

with a copy (which copy shall not constitute notice) to:

Michael D. Sontag
Bass, Berry & Sims
150 Third Avenue South, Suite 2800
Nashville, TN 37201

Robert Horton

Bass, Berry & Sims
150 Third Avenue South, Suite 2800
Nashville, TN 37201

CapStar: CapStar Financial Holdings, Inc.
201 4th Ave. North, Suite 950
Nashville, TN 37219

Attn: Secretary

with a copy (which copy shall not constitute notice) to:

Waller Lansden Dortch & Davis, LLP
Attn: Chase Cole
511 Union Street, Suite 2700

Nashville, TN 37219

22. Survival. The provisions of Sections 8, 9, 10, 11, 14 and 18 of this Amended Agreement shall survive any termination of this Amended Agreement.

23. Withholding. CapStar shall be entitled to withhold from amounts payable to Executive hereunder such amounts as may be required by applicable law.

[Execution Page follows]

EXECUTION PAGE

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and date first written above.

CAPSTAR: EXECUTIVE:

CapStar Bank and CapStar Financial Holdings, Inc.

/s/ Denny Bottorff
Denny Bottorff, Chairman of the Board

/s/ Claire Tucker
Claire Tucker

**FOURTH AMENDED AND RESTATED
EXECUTIVE EMPLOYMENT AGREEMENT**

THIS FOURTH AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT (this “**Agreement**”) made and entered into on this 26th day of April, 2018 (the “**Effective Date**”), between **CapStar Bank**, a Tennessee banking corporation headquartered in Nashville, Davidson County, Tennessee, hereinafter referred to as “**Bank**,” and **Dandridge W. Hogan**, hereinafter referred to as “**Executive**.”

WITNESSETH

WHEREAS, the Bank is a wholly-owned subsidiary of CapStar Financial Holdings, Inc., a Tennessee corporation established to be a bank holding company, (the “**Company**”) and Executive has been employed by Bank as its Chief Operating Officer since December 2012 and has been the Bank’s Chief Executive Officer since February 6, 2016; and

WHEREAS, Executive and Bank previously entered into a Third Amended and Restated Executive Employment Agreement on June 23, 2016 (the “**Prior Agreement**”) regarding the rendering of services for the periods set forth in the Prior Agreement; and

WHEREAS, Bank desires to amend and restate the Prior Agreement in order to continue to employ Executive to render services to it for the periods and upon the terms and conditions provided for in this Agreement; and

WHEREAS, Executive wishes to continue to serve in the employ of Bank for the period and upon the terms and conditions provided for in this Agreement.

NOW, THEREFORE, for the reasons set forth above and in consideration for the mutual promises and agreements set forth herein, Bank and Executive agree as follows:

1. Amendment of Prior Agreement. Bank and Executive hereby amend and restate the Prior Agreement in its entirety, and hereby substitute this Agreement for the Prior Agreement.

2. Employment. Subject to continued approval of the Tennessee Department of Financial Institutions and other bank regulatory agencies having jurisdiction over the operations of Bank, Bank hereby agrees that effective on the Effective Date, subject to the approval of the board of directors of Bank (the “Board”), Executive shall continue to be employed by Bank as its President and Chief Operating Officer pursuant to the terms of this Agreement. Executive agrees to devote his best efforts and his full-time employment to Bank’s business, operations and strategic planning and perform such other related activities and duties as the Board, or its designee, may, from time to time, determine and assign to Executive. Executive’s services and

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decisions shall be subject to the review, modification and control of the Board or its designee.

3. Compensation. During the term of Executive's employment hereunder:

(a) Salary. For the services provided for herein, Bank shall pay to Executive, and Executive shall accept from Bank, a base salary of Three Hundred Fifty Thousand and No/100 Dollars (\$350,000.00), per annum (Executive's "**Base Salary**"), subject to any and all withholdings and deductions required by law, payable in accordance with the customary payroll practices of Bank. During the term of this Agreement, Executive's Base Salary shall be reviewed from time to time by the Board, and, may be increased, but not decreased below the Base Salary, from time to time by the Board, based upon such factors as it may establish from time to time.

(b) Benefits. Bank shall provide to Executive, consistent with the terms and conditions of the respective plans, and pay the cost of, such employee benefits as are provided to Executive Officers of Bank generally under benefit plans adopted by Bank from time to time (such benefit plans of Bank in effect from time to time, "**Employee Benefit Plans**"). The Employee Benefit Plans may include vacation days, sick days or other types of paid or unpaid leave, insurance programs, pension plans, profit sharing plans, bonus plans, stock option plans, restricted stock plans or other stock-based incentive plans, and other employee benefit plans. Provision of such benefit plans by Bank is within the sole discretion of Bank, and any such benefits may be amended, modified or discontinued at any time by Bank.

(c) Reimbursements. Upon timely and well-documented requests by Executive submitted within one month from the payment of such expenses by Executive, Bank shall reimburse Executive for Executive's costs and expenses incurred in connection with the performance of Executive's duties or otherwise for the benefit of bank, specifically including any business expenses incurred with the prior approval of the Board. Such reimbursements shall be made in accordance with the policies established by Bank from time to time, recognizing that Bank may have different reimbursement policies for executive officers, and likewise may have different reimbursement policies for Executive as Chief Executive Officer of Bank. Such reimbursements may be approved by Bank on a one-time basis for a particular expenditure, or on an ongoing basis, and may include club memberships, automobile expense reimbursements, among others; provided, that, such ongoing approvals shall be subject to change from time to time.

4. Term of Employment; Renewal. The initial extended term of Executive's employment pursuant to this Agreement shall commence on the Effective Date and shall end on May 31, 2019 (the "**Renewal Term**"). The Term of Executive's employment, pursuant to this Agreement, may be renewed and the term thereof extended by one (1) additional year (each, an "**Extended Term**") at the end of the Renewal Term and at the end of each Extended Term, by mutual agreement of the parties, which shall be evidenced by each party giving notice of renewal to the other party at least ninety (90) days prior to the expiration of the then-current Extended Term. The initial term, Renewal Term and all Extended Terms are collectively referred to herein as the "**Term**."

5. Termination of Employment.

(a) Termination By Bank. Notwithstanding any of the foregoing provisions in this Agreement, Bank, by action of the Board, may terminate or elect not to extend the employment of Executive hereunder without notice at any time for Cause or without Cause. For purposes of this Agreement, “Cause” includes, but is not limited to: (i) any material breach of the terms of this Agreement which negatively impacts Bank, including but not limited to refusal to perform such activities and duties assigned to Executive by the board of directors of Bank (the “Board”), or its designee; (ii) personal dishonesty, fraud, disloyalty, or theft; (iii) disclosure of Bank’s confidential information except in the course of performing his duties while employed by Bank; (iv) willful illegal or disruptive conduct which impairs the reputation, goodwill or business position of Bank; (v) breach of fiduciary duty involving personal profit; (vi) any order or request for removal of Executive by any regulatory authority having jurisdiction over Bank; or (vii) Executive’s disability, as defined in any disability insurance policy of Bank with benefits payable to Executive, or if there is no such disability insurance policy, then as defined in Bank’s established policy applicable to executive officers (“Disability”). Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of a majority of the members of the Board at a duly constituted meeting of the Board, finding that in the good faith opinion of the Board, Executive was guilty of conduct justifying Termination for Cause and specifying the reasons therefor. Executive shall have the right to appear and defend himself at any meeting of the Board at which such a resolution is under consideration.

(b) For Cause; Nonrenewal. In the event of termination of Executive by Bank for Cause or election by Bank or Executive not to renew or extend the Term, Executive shall be entitled to receive only the compensation that has been earned and accrued as of the date of termination but no other monies or benefits except that: (A) in the case of Executive’s Disability, if no disability plan or disability insurance policy is in place, Executive shall receive fifty per cent (50%) of his Base Salary for a period not to exceed twenty four (24) weeks following the date of termination; and (B) subject to Section 13 hereof, Executive shall be entitled to receive any extended benefits provided to all employees of Bank, or required by law, such as, for example, COBRA health insurance coverage.

(c) Without Cause. In the event that: (A) Bank terminates executive’s employment hereunder without cause; or (B) Bank engages in conduct that constitutes Good Reason, Executive shall be entitled (i) to resign from his employment with Bank, (ii) to continue to receive his Base Salary, payable as before such termination, for a period of two (2) years after the effective date of such termination, (iii) subject to Section 13 hereof, be provided, for a period of twenty-four (24) months after such termination, with life, medical, dental and disability coverage substantially identical to the coverage maintained by the Bank for Executive prior to Executive’s severance, and (iv) to receive all benefits and reimbursements accrued and payable to Executive at the time of termination of his employment hereunder, including any stock or payments to which Executive is entitled under and subject to the terms of all incentive plans in which Executive participates (including and subject to the terms of each and any individual grant or award agreement), including stock option plans, restricted stock plans, performance share plans, and any other stock-based or cash-based incentive plans and the individual grant or award

agreements under such plans (collectively Executive's "**Severance Pay**"); provided, however, that if Bank offers and Executive voluntarily accepts terms of employment that would otherwise constitute Good Reason, then Executive shall be deemed to have waived his right to resign and receive Severance Pay. Upon termination of Executive's employment hereunder for any reason (other than by Bank for Cause), whether voluntarily by Executive or by termination by Bank without Cause, by non-renewal, or otherwise, Executive shall continue to be bound by the provisions set forth in Sections 8, 9, 10 and 11 hereof. In the event Executive's employment hereunder is terminated by Bank for Cause, Executive shall not be bound by the covenant not to compete set forth in Section 9 hereof.

(d) By Executive. Notwithstanding any of the foregoing provisions in this Agreement, Executive may terminate or elect not to extend his employment hereunder without notice at any time. In the event of a termination or election not to extend the Term by Executive for any reason other than Good Reason, including the death or Disability of Executive, Executive shall be entitled to receive only the compensation that has been earned and benefits and reimbursements that have accrued as of the date of termination but no other monies or benefits other than continuing benefits under any retirement plan, disability insurance policy, or life insurance policy payable by virtue of the retirement, death or disability of Executive having occurred prior to such termination of employment. Upon termination of Executive's employment by Executive for whatever reason, Executive shall continue to be bound by the provisions set forth in Sections 8, 9, 10 and 11 hereof.

6. Change in Control. Capitalized terms used in this Section 6 or in Section 7 but not otherwise defined in this Section 6 or in Section 7 shall have the meanings ascribed to them in Section 12.

(a) Entitlement to Benefits upon Termination. Subject to Section 13 hereof, if during the Protection Period a Qualifying Termination of Executive's employment occurs, Bank shall pay to Executive the Change in Control benefits described in this Section 6. Change in Control benefits shall not be payable if Executive's employment is terminated (i) for Cause, (ii) by Executive voluntarily without Good Reason or (iii) by reason of Disability. In addition, the Change in Control benefits shall not be payable if Executive's employment is terminated for any or no reason prior to or following the Protection Period.

(b) Change in Control Payment and Benefits. Executive shall be entitled to receive a cash payment equal to two (2) times Executive's Base Salary in effect immediately prior to the date of termination (the "**Change in Control Payment**"), which shall be paid in twenty-four (24) equal monthly payments commencing on the first business day of the first month following the date of termination. Subject to Section 13 hereof, if a Qualifying Termination of Executive's employment occurs during the Protection Period, Bank shall maintain for the remaining duration of the Protection Period Executive's health insurance coverage under any applicable Employee Benefit Plans, including any insurance policy held by Bank, and pay Bank's portion of such coverage, with the intent of the parties being that Executive shall continue to receive such health insurance coverage for a period of twenty-four (24) months following a Change in Control. Subject to Section 13 hereof, Executive shall have the right to continue COBRA health insurance coverage at the end of the Protection Period.

7. Compliance with Section 409A.

(a) Executive shall not have any right to make any election regarding the time or form of any payment due under this Agreement.

(b) A payment of any amount or benefit hereunder that is (i) subject to Code Section 409A, and (ii) to be made because of a termination of employment shall not be made unless such termination is also a "separation from service" within the meaning of Code Section 409A and the regulations promulgated thereunder and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment," "resignation" or like terms shall mean "separation from service" within the meaning of Code Section 409A. Notwithstanding any provision of this Agreement to the contrary, if at the time of Executive's "separation from service" Executive is a "specified employee" (within the meaning of Code Section 409A), then to the extent that any amount to which Executive is entitled in connection with his separation from service is subject to Code Section 409A, payments of such amounts to which Executive would otherwise be entitled during the six month period following the separation from service will be accumulated and paid in a lump sum on the earlier of (i) the first day of the seventh month after the date of the separation from service, or (ii) the date of Executive's death. This paragraph shall apply only to the extent required to avoid Executive's incurrence of any additional tax or interest under section 409A or any regulations or Treasury guidance promulgated thereunder.

(c) Notwithstanding any provision of this Agreement or any other arrangement to the contrary, to the extent that any payment to Executive under the terms of this Agreement or any other arrangement would constitute an impermissible acceleration or deferral of payments under Code Section 409A of the or any regulations or Treasury guidance promulgated thereunder, or under the terms of any applicable plan, program, arrangement or policy of Company, such payments shall be made no earlier or later than at such times allowed under Code Section 409A or the terms of such plan, program, arrangement or policy.

(d) Any payments provided in this Agreement or any other arrangement subject to Code Section 409A as an installment of payments or benefits, is intended to constitute a separately identified "payment" for purposes of Treas. Reg. § 1.409A-2(b)(2)(i).

8. Confidentiality. Executive shall not, at any time or in any manner, during or after the Term, either directly or indirectly, divulge, disclose or communicate to any person, firm or corporation in any manner, whatsoever, any material information concerning any matters affecting or relating to the business of Bank, except in the course of performing his duties while employed by Bank. This includes, without limitation, the name of Bank's clients, customers or suppliers, the terms and conditions of any contract to which Bank is a party or any other information concerning the business of Bank, its manner or operations or its plans for the future without regard to whether all of the foregoing matters shall be deemed confidential, material or important. Executive further agrees that he shall continue to be bound by the provisions of this Section 8 following any termination of Executive's employment pursuant to this Agreement.

9. Covenant Not to Compete. During the Term and for the period of twenty-four (24) months thereafter, upon termination of Executive's employment hereunder for any reason (other than by Bank for Cause), whether voluntarily by Executive or by termination by Bank without Cause, by non-renewal, or otherwise and whether before or after a Change in Control, Executive agrees that Executive shall not be employed by, consult with, or directly or indirectly own, become interested in, or become involved in any manner whatsoever in any business (including any bank or other financial institution in organization) which is or will be similar to or competitive with any aspect of the business of Bank which operates a bank branch or other business location in Davidson, Sumner or Williamson Counties, Tennessee, or in any other county in which Bank operates a bank branch or other business location, whether within or outside of Tennessee, determined as of the date of termination of Executive's employment with Bank. Executive agrees that should a court find the geographical scope of this covenant unreasonably broad, such court should nevertheless enforce this covenant to the extent that it deems reasonable. Executive specifically acknowledges and agrees that the foregoing restriction on competition with Bank will not prevent Executive from obtaining gainful employment following termination of employment with Bank and is a reasonable restriction upon Executive's ability to compete with Bank and to secure such gainful employment. In the event Executive's employment hereunder is terminated by Bank for Cause, Executive shall not be bound by the covenant not to compete in this Section 9.

10. Non-Solicitation Covenant. Executive agrees that for a period of two (2) years following the termination of his employment with Bank, he shall not contact or solicit, directly or indirectly, any customer or account that was a customer or account of Bank within twelve (12) months prior to the termination of Executive's employment with Bank. Executive further agrees that for a period of two (2) years following the termination of his employment with Bank, he shall not contact or solicit, directly or indirectly, any employee or person who was an employee of Bank within twelve (12) months prior to the termination of Executive's employment with Bank. The parties agree that these covenants are intended to prohibit Executive from engaging in such proscribed activities as an owner, partner, director, officer, executive, consultant, stockholder, agent, salesperson, or in any other capacity for any person, partnership, firm, corporation or other entity (including any financial institution in organization) unless he receives the express written consent of the Board. Executive specifically acknowledges and agrees that the foregoing restriction on competition with Bank will not prevent Executive from obtaining gainful employment following termination of his employment with Bank and is a reasonable restriction upon Executive's ability to compete with Bank and to secure such gainful employment.

11. No Enticement of Officers. Executive shall not, directly or indirectly, entice or induce, or attempt to entice or induce any Officer of Bank to leave such employment during the term of this Agreement or within two (2) years thereafter.

12. Certain Definitions. Whenever used in this Agreement and not otherwise defined herein, the following terms shall have the meanings set forth below:

(a) **"Change in Control"** means a transaction or circumstance in which any of the following have occurred, provided that the board of directors of the Company (the

“**Company Board**”) shall have determined that any such transaction or circumstance has resulted in a Change in Control, as defined in this paragraph, which determination shall be made in a manner consistent with Treas. Reg. § 1.409A-3(i)(5):

- (i) the date that any person, or persons acting as a group, as described in Treas. Reg. § 1.409A-3(i)(5) (a “Person”), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation controlling the Company or owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the beneficial owner (as defined in Rule 13d-3 under the Securities and Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company representing more than 40% of the total voting power represented by the Company's then outstanding voting securities (as defined below);
- (ii) the merger, acquisition or consolidation of the Company or the Bank with any corporation pursuant to which the other corporation immediately after such merger, acquisition or consolidation owns more than 50% of the voting securities (defined as any securities which vote generally in the election of its directors) of the Company or the Bank outstanding immediately prior thereto or more than 50% of the Company's or the Bank's total fair market value immediately prior thereto; or
- (iii) the date that a majority of the members of the Company Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company Board before the date of the appointment or election.

(b)“**Code**” means the Internal Revenue Code of 1986, as the same may be from time to time amended.

(c)“**Good Reason**” means any of the following:

- (i) Executive's then current base salary is reduced;
- (ii) Executive's work or reporting responsibilities are materially diminished, or
- (iii) Executive is relocated to a work location more than thirty (30) miles from the Executive's then current work location.

(d)“**Protection Period**” means the period commencing on the date that a Change in Control occurs, and ending on the last day of the twelfth (12th) calendar month following the calendar

month during which such Change in Control occurred. Anything in this Agreement to the contrary notwithstanding, if a Change in Control occurs, and if the date of termination with respect to Executive's employment by Bank occurs prior to the date on which the Change in Control occurs, unless it is reasonably demonstrated by Bank that such termination of employment (i) was not at the request of a third party who has taken steps reasonably calculated to effect the Change in Control and (ii) did not otherwise arise in connection with or in anticipation of the Change in Control, then for all purposes of this Agreement the "Protection Period" shall be deemed to have commenced on the date immediately preceding the date of termination of Executive.

(e) "**Qualifying Termination**" means:

- (i) an involuntary termination of Executive's employment by Bank (or any successor to Bank after the Change in Control) for reasons other than Cause (and other than on account of Executive's Disability); or
- (ii) a voluntary termination of employment by Executive for Good Reason.

13. COBRA Health Insurance Coverage. Notwithstanding any provision of this Agreement to the contrary, nothing in this Agreement shall be interpreted to require Bank to extend COBRA health insurance coverage benefits to Executive in violation of applicable law. In the event that, following termination of Executive's employment with Bank, Executive shall be entitled to receive extended insurance benefits pursuant to the terms of this Agreement, Executive shall be required to elect COBRA health insurance coverage and, thereafter, Bank shall provide such coverage to Executive through a COBRA subsidy; provided, however, that at such time as Bank is no longer permitted to extend COBRA health insurance coverage benefits to Executive under applicable law, Bank shall provide a cash payment to Executive in lieu of such subsidy (with each cash payment being equal to the amount of the last COBRA subsidy provided to Executive prior to Executive's termination pursuant to the terms hereof) , and Executive shall elect and obtain his own health insurance coverage.

14. Remedies. Executive acknowledges and agrees that the breach or threatened breach of any of the provisions of Sections 8, 9, 10 or 11 of this Agreement will cause irreparable harm to Bank which cannot be adequately compensated by the payment of damages. Accordingly, Executive covenants and agrees that Bank, in addition to any other rights or remedies which Bank may have, shall be entitled to such equitable and injunctive relief as may be available from any court of competent jurisdiction to restrain Executive from breaching or threatening to breach any of the provisions of this Agreement, without the requirement that Bank post bond or other surety. Such right to obtain injunctive relief may be exercised at the option of Bank in addition to, concurrently with, prior to, after, or in lieu of the exercise of any other rights or remedies which Bank may have as a result of any such breach or threatened breach.

15. Entire Agreement. Bank and Executive agree that this Agreement contains the complete agreement concerning the employment arrangement, written or oral, between them and that this Agreement supersedes all prior negotiations, practices and/or agreements, including the Prior Agreement. Neither party has made any representations that are not contained herein on which either party has relied in entering into this Agreement.

16. Assignment. It is agreed that Bank shall have the right to assign this Agreement to any purchaser of the business of or substantially all of the assets of Bank. This is a personal services contract, and may not be assigned by Executive.

17. Modification. This Agreement shall not be modified or amended except by a writing duly executed by both parties. No waiver of any provision of this Agreement shall be effective unless the waiver is in writing and duly executed by both parties.

18. Waiver of Breach. The waiver by a party of the breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach of the same of any other provision hereof by that party.

19. Severability. The provisions of this Agreement shall be severable, and the invalidity of any provisions or portion thereof shall not affect the validity of the other provisions.

20. Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee.

21. Notice. Any notice required or authorized hereunder shall be deemed delivered when delivered to Executive or to an executive officer of Bank, or when deposited, postage prepaid, in the United States mail certified, with return receipt requested, addressed to the parties as follows:

Executive: Dandridge W. Hogan
5033 High Valley Dr.

Brentwood, TN 37027
Davidson County TN

with a copy (which copy shall not constitute notice) to:

H. Rowan Leathers, III
Butler Snow, LLP
150 Third Ave. North
Suite 1600
Nashville, TN 37201

H. Rowan Leathers, III
Butler Snow, LLP

Bank: CapStar Bank

1201 Demonbreun Street
Suite 700
Nashville, TN 37203

Attn. Secretary

with a copy (which copy shall not constitute notice) to:

Waller Lansden Dortch & Davis LLP
Attn. Chase Cole, Esq.
511 Union Street, Suite 2700

Nashville, TN 37219

22. Survival. The provisions of Sections 8, 9, 10, 11, 14 and 18 of this Agreement shall survive any termination of this Agreement.

23. Withholding. Bank shall be entitled to withhold from amounts payable to Executive hereunder such amounts as may be required by applicable law.

(Signature Page Follows.)

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and date first written above.

BANK: EXECUTIVE:

CapStar Bank

/s/ Denny Bottorff
Denny Bottorff, Chairman of the Board

/s/ Dandridge Hogan
Dandridge W. Hogan

**FIRST AMENDED AND RESTATED
EXECUTIVE EMPLOYMENT AGREEMENT**

THIS FIRST AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT (this “**Agreement**”) made and entered into on this 5th day of April, 2018 (the “**Effective Date**”), between **CapStar Bank**, a Tennessee banking corporation headquartered in Nashville, Davidson County, Tennessee, hereinafter referred to as “**Bank**,” and **Christopher Tietz**, hereinafter referred to as “Executive.”

WITNESSETH

WHEREAS, the Bank is a wholly-owned subsidiary of CapStar Financial Holdings, Inc., a Tennessee corporation established to be a bank holding company, (the “**Company**”) and Executive has been employed by Bank as its Chief Credit Officer since March 1, 2016; and

WHEREAS, Executive and Bank previously entered into an Executive Employment Agreement on June 28, 2016 (the “**Prior Agreement**”) regarding the rendering of services for the periods set forth in the Prior Agreement; and

WHEREAS, Bank desires to amend and restate the Prior Agreement in order to continue to employ Executive to render services to it for the periods and upon the terms and conditions provided for in this Agreement; and

NOW, THEREFORE, for the reasons set forth above and in consideration for the mutual promises and agreements set forth herein, Bank and Executive agree as follows:

1. Employment. Subject to continued approval of the Tennessee Department of Financial Institutions and other bank regulatory agencies having jurisdiction over the operations of Bank, Bank hereby agrees that effective on the Effective Date, Executive shall continue to be employed by Bank as its Chief Credit Officer pursuant to the terms of this Agreement. Executive agrees to devote his best efforts and his full-time employment to Bank’s business, operations and strategic planning and perform such other related activities and duties as the board of directors of Bank (the “**Board**”) may, from time to time, determine and assign to Executive. Executive’s services and decisions shall be subject to the review, modification and control of the Board. Service on the Board by Executive shall be included in the scope of Executive’s employment if he so serves.

2. Compensation. During the term of Executive’s employment hereunder:

(a) Salary. For the services provided for herein, Bank shall pay to Executive, and Executive shall accept from Bank, a base salary of Two Hundred Ninety Two Thousand and No/100 Dollars (\$292,000.00) per annum (Executive’s “**Base Salary**”), subject to any and all withholdings and deductions required by law, payable in accordance with the customary payroll practices of Bank. During the term of this Agreement, Executive’s Base Salary shall be reviewed from time to time by the Board, and may be increased, but not decreased below the Base Salary, from time to time by the Board, based upon such factors as it

may establish from time to time.

(b) Benefits. Bank shall provide to Executive, consistent with the terms and conditions of the respective plans, and pay the cost of, such employee benefits as are provided to Executive Officers of Bank generally under benefit plans adopted by Bank from time to time (such benefit plans of Bank in effect from time to time, “**Employee Benefit Plans**”). The Employee Benefit Plans may include vacation days, sick days or other types of paid or unpaid leave, insurance programs, pension plans, profit sharing plans, bonus plans, stock option plans, restricted stock plans or other stock-based incentive plans, and other employee benefit plans. Provision of such benefit plans by Bank is within the sole discretion of Bank, and any such benefits may be amended, modified or discontinued at any time by Bank.

(c) Reimbursements. Upon timely and well-documented requests by Executive submitted within one month from the payment of such expenses by Executive, Bank shall reimburse Executive for Executive’s costs and expenses incurred in connection with the performance of Executive’s duties or otherwise for the benefit of bank, specifically including any business expenses incurred with the prior approval of the Board. Such reimbursements shall be made in accordance with the policies established by Bank from time to time, recognizing that Bank may have different reimbursement policies for executive officers, and likewise may have different reimbursement policies for Executive as Chief Financial Officer of Bank. Such reimbursements may be approved by Bank on a one-time basis for a particular expenditure, or on an ongoing basis, and may include automobile expense reimbursements, among others; provided, that such ongoing approvals shall be subject to change from time to time.

3. Term of Employment; Renewal. The initial extended term of Executive’s employment pursuant to this Agreement shall commence on the Effective Date and shall end on May 31, 2019 (the “**Initial Term**”). The Term of Executive’s employment pursuant to this Agreement may be renewed and the term thereof extended by one (1) additional year (each, an “**Extended Term**”) at the end of the Initial Term and at the end of each Extended Term, by mutual agreement of the parties, which shall be evidenced by each party giving notice of renewal to the other party at least ninety (90) days prior to the expiration of the then-current Extended Term. The Initial term and all Extended Terms are collectively referred to herein as the “**Term**.”

4. Termination of Employment.

(a) Termination By Bank. Notwithstanding any of the foregoing provisions in this Agreement, Bank, by action of the Board, may terminate or elect not to extend the employment of Executive hereunder without notice at any time, for Cause or without Cause. For purposes of this Agreement, “Cause” includes, but is not limited to: (i) any material breach of the terms of this Agreement which negatively impacts Bank; (ii) personal dishonesty, fraud, disloyalty, or theft; (iii) disclosure of Bank’s confidential information except in the course of performing his duties while employed by Bank; (iv) willful illegal or disruptive conduct which impairs the reputation, goodwill or business position of Bank; (v) breach of fiduciary duty involving personal profit; (vi) any order or request for removal of Executive by any regulatory authority having jurisdiction over Bank; or (vii) Executive’s disability, as defined in any disability insurance policy of Bank with benefits payable to Executive, or if there is no such

disability insurance policy, then as defined in Bank's established policy applicable to executive officers ("**Disability**"). Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of a majority of the members of the Board at a duly constituted meeting of the Board, finding that in the good faith opinion of the Board, Executive was guilty of conduct justifying Termination for Cause and specifying the reasons therefor. Executive shall have the right to appear and defend himself at any meeting of the Board at which such a resolution is under consideration.

(b) For Cause; Nonrenewal. In the event of termination of Executive by Bank for Cause or election by Bank or Executive not to renew or extend the Term, Executive shall be entitled to receive only the compensation that has been earned and accrued as of the date of termination but no other monies or benefits except that: (A) in the case of Executive's Disability, if no disability plan or disability insurance policy is in place, Executive shall receive fifty per cent (50%) of his Base Salary for a period not to exceed twenty four (24) weeks following the date of termination; and (B) subject to Section 12 hereof, Executive shall be entitled to receive any extended benefits provided to all employees of Bank or required by law, such as, for example, COBRA health insurance coverage.

(c) Without Cause. In the event that: (A) Bank terminates executive's employment hereunder without cause; or (B) Bank engages in conduct that constitutes Good Reason, Executive shall be entitled (i) to resign from his employment with Bank, (ii) to continue to receive his Base Salary, payable as before such termination, for a period of one (1) year after the effective date of such termination, (iii) subject to Section 13 hereof, be provided, for a period of twelve (12) months after such termination, with life, medical, dental and disability coverage substantially identical to the coverage maintained by the Bank for Executive prior to Executive's severance, and (iv) to receive all benefits and reimbursements accrued and payable to Executive at the time of termination of his employment hereunder, including any stock or payments to which Executive is entitled under, and subject to the terms of, all incentive plans in which Executive participates (including and subject to the terms of each and any individual grant or award agreement), including stock option plans, restricted stock plans, performance share plans, and any other stock-based or cash-based incentive plans and the individual grant or award agreements under such plans (collectively, Executive's "**Severance Pay**"); provided, however, that if Bank offers and Executive voluntarily accepts terms of employment that would otherwise constitute Good reason, then Executive shall be deemed to have waived his right to resign and receive Severance Pay. Upon termination of Executive's employment hereunder for any reason (other than by Bank for Cause), whether voluntarily by Executive or by termination by Bank without Cause, by non-renewal, or otherwise, Executive shall continue to be bound by the provisions contained in Sections 7, 8, 9, and 10 hereof. In the event Executive's employment hereunder is terminated by Bank for Cause, Executive shall not be bound by the covenant not to compete set forth in Section 8 hereof.

(d) By Executive. Notwithstanding any of the foregoing provisions in this Agreement, Executive may terminate or elect not to extend his employment hereunder without notice at any time. In the event of a termination or election not to extend the Term by Executive for any reason other than Good Reason, including the death or Disability of Executive, Executive

shall be entitled to receive only the compensation that has been earned and benefits and reimbursements that have accrued as of the date of termination and any extended benefits required by law, but no other monies or benefits other than continuing benefits under any retirement plan, disability insurance policy, or life insurance policy payable by virtue of the retirement, death or disability of Executive having occurred prior to such termination of employment. Upon termination of Executive's employment by Executive for whatever reason, Executive shall continue to be bound by the provisions set forth in Sections 7, 8, 9, and 10 hereof.

5. Change in Control. Capitalized terms used in this Section 5 or in Section 6 but not otherwise defined in this Section 5 or in Section 6 shall have the meanings ascribed to them in Section 11.

(a) Entitlement to Benefits upon Termination. Subject to Section 12 hereof, if during the Protection Period a Qualifying Termination of Executive's employment occurs, Bank shall pay to Executive the Change in Control benefits described in this Section 5. Change in Control benefits shall not be payable if Executive's employment is terminated (i) for Cause, (ii) by Executive voluntarily without Good Reason or (iii) by reason of Disability. In addition, the Change in Control benefits shall not be payable if Executive's employment is terminated for any or no reason prior to or following the Protection Period.

(b) Change in Control Payment and Benefits. Executive shall be entitled to receive a cash payment equal to one (1) times Executive's Base Salary in effect immediately prior to the date of termination (the "**Change in Control Payment**"), which shall be paid in twelve (12) equal monthly payments commencing on the first business day of the first month following the date of termination. Subject to Section 13 hereof, if a Qualifying Termination of Executive's employment occurs during the Protection Period, Bank shall maintain for the remaining duration of the Protection Period Executive's health insurance coverage under any applicable Employee Benefit Plans, including any insurance policy held by Bank, and pay Bank's portion of such coverage, with the intent of the parties being that Executive shall continue to receive such health insurance coverage for a period of twelve (12) months following a Change in Control. Subject to Section 13 hereof, Executive shall have the right to continue COBRA health insurance coverage at the end of the Protection Period.

6. Compliance with Section 409A.

(a) Executive shall not have any right to make any election regarding the time or form of any payment due under this Agreement.

(b) A payment of any amount or benefit hereunder that is (i) subject to Code Section 409A, and (ii) to be made because of a termination of employment shall not be made unless such termination is also a "separation from service" within the meaning of Code Section 409A and the regulations promulgated thereunder and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment," "resignation" or like terms shall mean "separation from service" within the meaning of Code Section 409A. Notwithstanding any provision of this Agreement to the contrary, if at the time of Executive's

“separation from service” Executive is a “specified employee” (within the meaning of Code Section 409A), then to the extent that any amount to which Executive is entitled in connection with his separation from service is subject to Code Section 409A, payments of such amounts to which Executive would otherwise be entitled during the six month period following the separation from service will be accumulated and paid in a lump sum on the earlier of (i) the first day of the seventh month after the date of the separation from service, or (ii) the date of Executive’s death. This paragraph shall apply only to the extent required to avoid Executive’s incurrence of any additional tax or interest under section 409A or any regulations or Treasury guidance promulgated thereunder.

(c) Notwithstanding any provision of this Agreement or any other arrangement to the contrary, to the extent that any payment to Executive under the terms of this Agreement or any other arrangement would constitute an impermissible acceleration or deferral of payments under Code Section 409A of the or any regulations or Treasury guidance promulgated thereunder, or under the terms of any applicable plan, program, arrangement or policy of Company, such payments shall be made no earlier or later than at such times allowed under Code Section 409A or the terms of such plan, program, arrangement or policy.

(d) Any payments provided in this Agreement or any other arrangement subject to Code Section 409A as an installment of payments or benefits, is intended to constitute a separately identified “payment” for purposes of Treas. Reg. § 1.409A-2(b)(2)(i).

7. Confidentiality. Executive shall not, at any time or in any manner, during or after the Term, either directly or indirectly, divulge, disclose or communicate to any person, firm or corporation in any manner, whatsoever, any material information concerning any matters affecting or relating to the business of Bank, except in the course of performing his duties while employed by Bank. This includes, without limitation, the name of Bank’s clients, customers or suppliers, the terms and conditions of any contract to which Bank is a party or any other information concerning the business of Bank, its manner or operations or its plans for the future without regard to whether all of the foregoing matters will be deemed confidential, material or important. Executive further agrees that he shall continue to be bound by the provisions of this Section 8 following any termination of Executive’s employment pursuant to this Agreement.

8. Covenant Not to Compete. During the Term and for the period of twelve (12) months thereafter, upon termination of Executive’s employment hereunder for any reason (other than by Bank for Cause), whether voluntarily by Executive or by termination by Bank without Cause, by non renewal, or otherwise, and whether before or after a Change in Control, Executive agrees that Executive shall not be employed by, consult with, or directly or indirectly own, become interested in, or become involved in any manner whatsoever in any business (including any bank or other financial institution in organization) which is or will be similar to or competitive with any aspect of the business of Bank which operates a bank branch or other business location in Davidson, Sumner or Williamson Counties, Tennessee, or in any other county in which Bank operates a bank branch, determined as of the date of termination of Executive’s employment with Bank. Executive agrees that should a court find the geographical scope of this covenant unreasonably broad, such court should nevertheless enforce this covenant to the extent that it deems reasonable. Executive specifically acknowledges and agrees that the

foregoing restriction on competition with Bank will not prevent Executive from obtaining gainful employment following termination of employment with Bank and is a reasonable restriction upon Executive's ability to compete with Bank and to secure such gainful employment. In the event Executive's employment hereunder is terminated by Bank for Cause, Executive shall not be bound by the covenant not to compete in this Section 9.

9. Non-Solicitation Covenant. Executive agrees that for a period of one (1) year following the termination of his employment with Bank, he shall not contact and solicit, directly or indirectly, any customer or account that was a customer or account of Bank within twelve (12) months prior to the termination of Executive's employment with Bank. Executive further agrees that for a period of one (1) year following the termination of his employment with Bank, he shall not contact and solicit, directly or indirectly, any employee or person who was an employee of Bank within twelve (12) months prior to the termination of Executive's employment with Bank. The parties agree that these covenants are intended to prohibit Executive from engaging in such proscribed activities as an owner, partner, director, officer, executive, consultant, stockholder, agent, salesperson, or in any other capacity for any person, partnership, firm, corporation or other entity (including any financial institution in organization) unless he receives the express written consent of the Board. Executive specifically acknowledges and agrees that the foregoing restriction on competition with Bank will not prevent Executive from obtaining gainful employment following termination of his employment with Bank and is a reasonable restriction upon Executive's ability to compete with Bank and to secure such gainful employment.

10. No Enticement of Officers. Executive shall not, directly or indirectly, entice or induce, or attempt to entice or induce any Officer of Bank to leave such employment during the term of this Agreement or within one (1) year thereafter.

11. Certain Definitions. Whenever used in this Agreement and not otherwise defined herein, the following terms shall have the meanings set forth below:

(a) **"Change in Control"** means a transaction or circumstance in which any of the following have occurred, provided that the board of directors of the Company (the **"Company Board"**) shall have determined that any such transaction or circumstance has resulted in a Change in Control, as defined in this paragraph, which determination shall be made in a manner consistent with Treas. Reg. § 1.409A-3(i)(5):

- (i) the date that any person, or persons acting as a group, as described in Treas. Reg. § 1.409A-3(i)(5) (a "Person"), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation controlling the Company or owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the beneficial owner (as defined in Rule 13d-3 under the Securities and Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company representing more than 40% of the total voting power represented

by the Company's then outstanding voting securities (as defined below);

- (ii) the merger, acquisition or consolidation of the Company or the Bank with any corporation pursuant to which the other corporation immediately after such merger, acquisition or consolidation owns more than 50% of the voting securities (defined as any securities which vote generally in the election of its directors) of the Company or the Bank outstanding immediately prior thereto or more than 50% of the Company's or the Bank's total fair market value immediately prior thereto; or
- (iii) the date that a majority of the members of the Company Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company Board before the date of the appointment or election.

(b)“**Code**” means the Internal Revenue Code of 1986, as the same may be from time to time amended.

(c)“**Good Reason**” means any of the following:

- (i) Executive's then current base salary is reduced;
- (ii) Executive's work or reporting responsibilities are materially diminished, or
- (iii) Executive is relocated to a work location more than thirty (30) miles from the Executive's then current work location.

(d)“**Protection Period**” means the period commencing on the date that a Change in Control occurs, and ending on the last day of the twelfth (12th) calendar month following the calendar month during which such Change in Control occurred. Anything in this Agreement to the contrary notwithstanding, if a Change in Control occurs, and if the date of termination with respect to Executive's employment by Bank occurs prior to the date on which the Change in Control occurs, unless it is reasonably demonstrated by Bank that such termination of employment (i) was not at the request of a third party who has taken steps reasonably calculated to effect the Change in Control and (ii) did not otherwise arise in connection with or in anticipation of the Change in Control, then for all purposes of this Agreement the “Protection Period” shall be deemed to have commenced on the date immediately preceding the date of termination of Executive.

(e)“**Qualifying Termination**” means:

(i) an involuntary termination of Executive's employment by Bank (or any successor to Bank after the Change in Control) for reasons other than Cause (and other than on account of Executive's Disability); or

(ii) a voluntary termination of employment by Executive for Good Reason.

12. COBRA Health Insurance Coverage. Notwithstanding any provision of this Agreement to the contrary, nothing in this Agreement shall be interpreted to require Bank to extend COBRA health insurance coverage benefits to Executive in violation of applicable law. In the event that, following termination of Executive's employment with Bank, Executive shall be entitled to receive extended insurance benefits pursuant to the terms of this Agreement, Executive shall be required to elect COBRA health insurance coverage and, thereafter, Bank shall be financially responsible for such coverage to Executive through a COBRA subsidy; provided, however, that at such time as Bank is no longer permitted to extend COBRA health insurance coverage benefits to Executive under applicable law, Bank shall provide a cash payment to Executive in lieu of such subsidy (with each cash payment being equal to the amount of the last COBRA subsidy provided to Executive prior to Executive's termination pursuant to the terms hereof), and Executive shall elect and obtain his own health insurance coverage.

13. Remedies. Executive acknowledges and agrees that the breach or threatened breach of any of the provisions of Sections 7, 8, 9, or 10 of this Agreement will cause irreparable harm to Bank which cannot be adequately compensated by the payment of damages. Accordingly, Executive covenants and agrees that Bank, in addition to any other rights or remedies which Bank may have, shall be entitled to such equitable and injunctive relief as may be available from any court of competent jurisdiction to restrain Executive from breaching or threatening to breach any of the provisions of this Agreement, without the requirement that Bank post bond or other surety. Such right to obtain injunctive relief may be exercised at the option of Bank in addition to, concurrently with, prior to, after, or in lieu of the exercise of any other rights or remedies which Bank may have as a result of any such breach or threatened breach.

14. Entire Agreement. Bank and Executive agree that this Agreement contains the complete agreement concerning the employment arrangement, written or oral, between them and that this Agreement supersedes all prior negotiations, practices and/or agreements. Neither party has made any representations that are not contained herein on which either party has relied in entering into this Agreement.

15. Assignment. It is agreed that Bank shall have the right to assign this Agreement to any purchaser of the business of or substantially all of the assets of Bank. This is a personal services contract, and may not be assigned by Executive.

16. Modification. This Agreement shall not be modified or amended except by a writing duly executed by both parties. No waiver of any provision of this Agreement shall be effective unless the waiver is in writing and duly executed by both parties.

17. Waiver of Breach. The waiver by a party of the breach of any provision of this

Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach of the same of any other provision hereof by that party.

18. Severability. The provisions of this Agreement shall be severable, and the invalidity of any provisions or portion thereof shall not affect the validity of the other provisions.

19. Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee.

20. Notice. Any notice required or authorized hereunder shall be deemed delivered when delivered to Executive or to an executive officer of Bank, or when deposited, postage prepaid, in the United States mail certified, with return receipt requested, addressed to the parties as follows:

Executive: Christopher Tietz

with a copy (which copy shall not constitute notice) to:

Bank: CapStar Bank

1201 Demonbreun Street
Suite 700
Nashville, TN 37219

Attn.: Secretary

with a copy (which copy shall not constitute notice) to:

Waller Lansden Dortch & Davis LLP
Attn. Chase Cole, Esq.

511 Union Street, Suite 2700
Nashville, TN 37219

21. Survival. The provisions of Sections 7, 8, 9, 10, 13 and 17 of this Agreement shall survive any termination of this Agreement.

22. Withholding. Bank shall be entitled to withhold from amounts payable to Executive hereunder such amounts as may be required by applicable law.

(Signature Page Follows.)

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and date first written above.

BANK: EXECUTIVE:

CapStar Bank

/s/ Denny Bottorff
Denny Bottorff, Chairman of the Board

/s/ Christopher Tietz
Christopher Tietz

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Claire W. Tucker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CapStar Financial Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2018

By: /s/ Claire W. Tucker
Claire W. Tucker
President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert B. Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CapStar Financial Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2018

By: /s/ Robert B. Anderson
Robert B. Anderson
Chief Financial Officer and
Chief Administrative Officer

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

In connection with the Quarterly Report on Form 10-Q of CapStar Financial Holdings, Inc. (the "Company") for the period ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Claire W. Tucker, President and Chief Executive Officer of the Company, certify in my capacity as an officer of the Company, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 2, 2018

By: /s/ Claire W. Tucker
Claire W. Tucker
President and Chief Executive Officer

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

In connection with the Quarterly Report on Form 10-Q of CapStar Financial Holdings, Inc. (the "Company") for the period ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert B. Anderson, Chief Financial Officer and Chief Administrative Officer of the Company, certify in my capacity as an officer of the Company, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 2, 2018

By: /s/ Robert B. Anderson
Robert B. Anderson
Chief Financial Officer and
Chief Administrative Officer

