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, 2021
or
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
Commission File Number: 001-36522

Investar Holding Corporation

(Exact name of registrant as specified in its charter)

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

10500 Coursey Boulevard, Baton Rouge, Louisiana 70816
(Address of principal executive offices, including zip code)
(225) 227-2222
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $1.00 par value per share	ISTR	The Nasdaq Global Market

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

The number of shares outstanding of the issuer's class of common stock, as of the latest practicable date, is as follows: Common stock, $1.00 par value, 10,413,331 shares outstanding as of May 3, 2021.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2021 (Unaudited)	December 31, 2020
ASSETS		
Cash and due from banks	$ 29,970	$ 25,672
Interest-bearing balances due from other banks	69,400	9,696
Federal funds sold	97	—
Cash and cash equivalents	99,467	35,368
Available for sale securities at fair value (amortized cost of $299,310 and $263,913, respectively)	301,433	268,410
Held to maturity securities at amortized cost (estimated fair value of $12,341 and $12,649, respectively)	11,966	12,434
Loans, net of allowance for loan losses of $20,423 and $20,363, respectively	1,825,547	1,839,955
Equity securities	16,763	16,599
Bank premises and equipment, net of accumulated depreciation of $16,803 and $15,830, respectively	56,631	56,303
Other real estate owned, net	1,518	663
Accrued interest receivable	12,868	12,969
Deferred tax asset	—	1,360
Goodwill and other intangible assets, net	32,001	32,232
Bank owned life insurance	39,131	38,908
Other assets	10,631	5,980
Total assets	$ 2,407,956	$ 2,321,181
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 515,487	$ 448,230
Interest-bearing	1,494,393	1,439,594
Total deposits	2,009,880	1,887,824
Advances from Federal Home Loan Bank	82,500	120,500
Repurchase agreements	4,274	5,653
Subordinated debt, net of unamortized issuance costs	42,920	42,897
Junior subordinated debt	5,962	5,949
Accrued taxes and other liabilities	14,169	15,074
Total liabilities	2,159,705	2,077,897
STOCKHOLDERS' EQUITY		
Preferred stock, no par value per share; 5,000,000 shares authorized	—	—
Common stock, $1.00 par value per share; 40,000,000 shares authorized; 10,436,493 and 10,608,869 shares issued and outstanding, respectively	10,436	10,609
Surplus	155,822	159,485
Retained earnings	75,998	71,385
Accumulated other comprehensive income	5,995	1,805
Total stockholders' equity	248,251	243,284
Total liabilities and stockholders' equity	$ 2,407,956	$ 2,321,181

See accompanying notes to the consolidated financial statements.

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

	Three months ended March 31,	
	2021	**2020**
INTEREST INCOME		
Interest and fees on loans	$ 21,627	$ 21,669
Interest on investment securities	1,179	1,695
Other interest income	163	257
Total interest income	22,969	23,621
INTEREST EXPENSE		
Interest on deposits	2,302	5,032
Interest on borrowings	1,033	1,254
Total interest expense	3,335	6,286
Net interest income	19,634	17,335
Provision for loan losses	400	3,760
Net interest income after provision for loan losses	19,234	13,575
NONINTEREST INCOME		
Service charges on deposit accounts	491	571
Gain on sale of investment securities, net	600	172
Loss on sale of fixed assets, net	(2)	—
Gain on sale of other real estate owned, net	—	26
Servicing fees and fee income on serviced loans	64	120
Interchange fees	388	295
Income from bank owned life insurance	223	190
Change in the fair value of equity securities	65	(826)
Other operating income	536	541
Total noninterest income	2,365	1,089
Income before noninterest expense	21,599	14,664
NONINTEREST EXPENSE		
Depreciation and amortization	1,206	1,033
Salaries and employee benefits	8,695	7,953
Occupancy	637	531
Data processing	746	693
Marketing	41	32
Professional fees	358	394
Acquisition expense	361	751
Other operating expenses	2,765	2,520
Total noninterest expense	14,809	13,907
Income before income tax expense	6,790	757
Income tax expense	1,430	149
Net income	$ 5,360	$ 608
EARNINGS PER SHARE		
Basic earnings per share	$ 0.51	$ 0.05
Diluted earnings per share	0.51	0.05
Cash dividends declared per common share	0.07	0.06

See accompanying notes to the consolidated financial statements.

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

	Three months ended March 31,	
	2021	**2020**
Net income	$ 5,360	$ 608
Other comprehensive income (loss):		
Unrealized (loss) gain on investment securities:		
Unrealized (loss) gain, available for sale, net of tax (benefit) expense of ($372) and $149, respectively	(1,401)	562
Reclassification of realized gain, net of tax expense of $126 and $36, respectively	(474)	(136)
Fair value of derivative financial instruments:		
Change in fair value of interest rate swaps designated as a cash flow hedge, net of tax expense (benefit) of $1,612 and ($667), respectively	6,065	(2,511)
Total other comprehensive income (loss)	4,190	(2,085)
Total comprehensive income (loss)	$ 9,550	$ (1,477)

See accompanying notes to the consolidated financial statements.

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

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Three months ended:					
March 31, 2020					
Balance at beginning of period	$ 11,229	$ 168,658	$ 60,198	$ 1,891	$ 241,976
Stock issuance costs	—	(45)	—	—	(45)
Surrendered shares	(13)	(279)	—	—	(292)
Options exercised	3	43	—	—	46
Dividends declared, $0.06 per share	—	—	(660)	—	(660)
Stock-based compensation	48	335	—	—	383
Shares repurchased	(327)	(6,332)	—	—	(6,659)
Net income	—	—	608	—	608
Other comprehensive loss, net	—	—	—	(2,085)	(2,085)
Balance at end of period	$ 10,940	$ 162,380	$ 60,146	$ (194)	$ 233,272
March 31, 2021					
Balance at beginning of period	$ 10,609	$ 159,485	$ 71,385	$ 1,805	$ 243,284
Surrendered shares	(19)	(337)	—	—	(356)
Options exercised	8	107	—	—	115
Dividends declared, $0.07 per share	—	—	(747)	—	(747)
Stock-based compensation	64	336	—	—	400
Shares repurchased	(226)	(3,769)	—	—	(3,995)
Net income	—	—	5,360	—	5,360
Other comprehensive income, net	—	—	—	4,190	4,190
Balance at end of period	$ 10,436	$ 155,822	$ 75,998	$ 5,995	$ 248,251

See accompanying notes to the consolidated financial statements.

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

	Three months ended March 31,	
	2021	**2020**
Net income	$ 5,360	$ 608
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,206	1,033
Provision for loan losses	400	3,760
Amortization of purchase accounting adjustments	(140)	(299)
Net amortization of securities	919	538
Gain on sale of investment securities, net	(600)	(172)
Loss on sale of fixed assets, net	2	—
Gain on sale of other real estate owned, net	—	(26)
FHLB stock dividend	(11)	(715)
Stock-based compensation	400	383
Deferred taxes	367	(347)
Net change in value of bank owned life insurance	(223)	(190)
Amortization of subordinated debt issuance costs	23	5
Change in the fair value of equity securities	(65)	826
Net change in:		
Accrued interest receivable	101	(851)
Other assets	933	(1,270)
Accrued taxes and other liabilities	782	(2,500)
Net cash provided by operating activities	$ 9,454	$ 783
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	$ 17,123	$ 16,572
Purchases of securities available for sale	(74,334)	(47,882)
Proceeds from maturities, prepayments and calls of investment securities available for sale	21,505	15,014
Proceeds from maturities, prepayments and calls of investment securities held to maturity	458	151
Proceeds from redemption or sale of equity securities	435	2,371
Purchases of equity securities	(523)	(820)
Net decrease in loans	13,789	6,322
Proceeds from sales of other real estate owned	—	131
Purchases of other real estate owned	(501)	—
Purchases of fixed assets	(1,429)	(1,759)
Distributions from investments	—	7
Cash paid for acquisition of PlainsCapital branches, net of cash acquired	—	(10,761)
Net cash used in investing activities	$ (23,477)	$ (20,654)

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

Cash flows from financing activities:		
Net increase (decrease) in customer deposits	$ 122,074	$ (15,803)
Net (decrease) increase in repurchase agreements	(1,379)	737
Net (decrease) increase in short-term FHLB advances	(38,000)	36,721
Repayments of long-term FHLB advances	—	(600)
Cash dividends paid on common stock	(693)	(679)
Proceeds from stock options and warrants exercised	115	46
Payments to repurchase common stock	(3,995)	(6,659)
Payments of stock issuance costs	—	(45)
Net cash provided by financing activities	$ 78,122	$ 13,718
Net change in cash and cash equivalents	$ 64,099	$ (6,153)
Cash and cash equivalents, beginning of period	35,368	44,695
Cash and cash equivalents, end of period	$ 99,467	$ 38,542

See accompanying notes to the consolidated financial statements.

INVESTAR HOLDING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements of Investar Holding Corporation (the "Company") have been prepared in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include information or footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with GAAP. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the three month period ended March 31, 2021 are not necessarily indicative of the results that may be expected for the entire fiscal year. These statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020, including the notes thereto, which were included as part of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 10, 2021.

Nature of Operations

The Company, headquartered in Baton Rouge, Louisiana, provides full banking services, excluding trust services, through its wholly-owned banking subsidiary, Investar Bank, National Association (the "Bank"), a national bank, primarily to meet the needs of individuals and small to medium-sized businesses. The Company's primary markets are in Louisiana, Texas and Alabama. At March 31, 2021, the Company operated 24 full service branches located in Louisiana, five full service branches located in Texas and six full service branches located in Alabama, and had 319 employees.

Principles of Consolidation

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

Use of Estimates

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

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

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

The ongoing COVID-19 pandemic has made certain estimates more challenging, including those discussed above, as the pandemic is unprecedented in recent history, continues to evolve, and its future effects are impossible to predict with any certainty.

INVESTAR HOLDING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Investment Securities

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

- Securities available for sale ("AFS"): available for sale securities consist of bonds, notes, and debentures that are available to meet the Company's operating needs. These securities are reported at fair value.

- Securities to be held to maturity ("HTM"): bonds, notes, and debentures for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

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

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

Equity Securities

The Company is a member of the Federal Home Loan Bank ("FHLB") system. Members of the FHLB are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, is restricted as to redemption, and is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. Equity securities also include investments in our other correspondent banks including Independent Bankers Financial Corporation and First National Bankers Bank stock. These investments are carried at cost which approximates fair value. The balance of equity securities in our correspondent banks at March 31, 2021 and December 31, 2020 was $15.0 million and $14.9 million, respectively.

In addition, equity securities include marketable securities in corporate stocks and mutual funds. The estimated fair value of equity securities totaled $1.8 million and $1.7 million at March 31, 2021 and December 31, 2020, respectively.

Loans

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

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

INVESTAR HOLDING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

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

Treatment of Loan Modifications Pursuant to the CARES Act and Interagency Statement

Section 4013 of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") enacted on March 27, 2020 provides that from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 pandemic declared by the President of the United States under the National Emergencies Act terminates (the "applicable period"), we may elect to suspend GAAP for loan modifications related to the pandemic that would otherwise be categorized as troubled debt restructurings ("TDRs") and suspend any determination of a loan modified as a result of the effects of the pandemic as being a TDR, including impairment for accounting purposes. The suspension is applicable for the term of the loan modification that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019. The suspension is not applicable to any adverse impact on the credit of a borrower that is not related to the pandemic. The Consolidated Appropriations Act, 2021 ("CAA") enacted on December 27, 2020 extended the applicable period to the earlier of January 1, 2022 or 60 days after the national emergency termination date.

In addition, our banking regulators and other financial regulators, on March 22, 2020 and revised April 7, 2020, issued a joint interagency statement titled the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" that encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of the COVID-19 pandemic. Pursuant to the interagency statement, loan modifications that do not meet the conditions of Section 4013 of the CARES Act may still qualify as a modification that does not need to be accounted for as a TDR. Specifically, the agencies confirmed with the staff of the FASB that short-term modifications made in good faith in response to the pandemic to borrowers who were current prior to any relief are not TDRs under GAAP. This includes short-term (e.g. six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. Appropriate allowances for loan and lease losses are expected to be maintained. With regard to loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to the pandemic as past due because of the deferral. The interagency statement also states that during short-term pandemic-related loan modifications, these loans generally should not be reported as nonaccrual.

Accordingly, we are offering short-term modifications made in response to COVID-19 to borrowers who are current and otherwise not past due. These include short-term modifications of 90 days or less, in the form of deferrals of payment of principal and interest, principal only, or interest only, and fee waivers. As of March 31, 2021, the balance of loans participating in the 90-day deferral program was $11.2 million, or 0.6% of the total loan portfolio, compared to $5.9 million, or 0.3% of the total loan portfolio, at December 31, 2020. In accordance with Section 4013 of the CARES Act and the interagency statement, we have not accounted for such loans as TDRs, nor have we designated them as past due or nonaccrual. We are continuing to support borrowers experiencing financial hardships related to the pandemic, and we expect to process additional deferrals requested by qualified borrowers. Therefore, we may experience fluctuations in the balance of loans participating in the deferral program.

Allowance for Loan Losses

The allowance for loan losses is estimated through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance.

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

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

In the ordinary course of business, the Bank enters into commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded lending commitments is included in accrued taxes and other liabilities in the consolidated balance sheet. At March 31, 2021 and December 31, 2020 the reserve for unfunded loan commitments was $0.3 million and $0.2 million, respectively.

INVESTAR HOLDING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Acquisition Accounting

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

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

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

Reclassifications

Certain reclassifications have been made to the 2020 financial statements to be consistent with the 2021 presentation, if applicable.

Concentrations of Credit Risk

The Company's loan portfolio consists of the various types of loans described in Note 5. Loans and Allowance for Loan Losses. Real estate or other assets secure most loans. The majority of loans have been made to individuals and businesses in the Company's market of southeast Louisiana. Customers are dependent on the condition of the local economy for their livelihoods and servicing their loan obligations. The Company does not have any significant concentrations in any one industry or individual customer.

Accounting Standards Adopted in 2021

FASB ASC Topics 321, 323, and 815 "*Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*" *ASU No. 2020-01.* ASU 2020-01 became effective for the Company on January 1, 2021. The ASU clarifies the interaction among ASC 321, ASC 323, and ASC 815 for equity securities, equity method investments, and certain financial instruments to acquire equity securities. It clarifies whether re-measurement of equity investments is appropriate when observable transactions cause the equity method to be triggered or discontinued. ASU 2020-01 also provides that certain forward contracts and purchased options to acquire equity securities will be measured under ASC 321 without an assessment of subsequent accounting upon settlement or exercise. The adoption of ASU 2020-01 did not have a material impact on the consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

FASB ASC Topic 326 "*Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*" *Update No. 2016-13.* The FASB issued ASU No. 2016-13 in June 2016. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. We are currently evaluating the potential impact of ASU 2016-13 on our financial statements. In that regard, we have formed a cross-functional working group, under the direction of our Chief Financial Officer and our Chief Risk Officer. The working group is comprised of individuals from various functional areas including credit, risk management, finance and information technology. We have developed an implementation plan to include assessment of processes, portfolio segmentation, model development, system requirements and the identification of data and resource needs, among other things. We have also selected a third-party vendor solution to assist us in the application of ASU 2016-13.

The adoption of ASU 2016-13 is likely to result in an increase in the allowance for loan losses as a result of changing from an "incurred loss" model, which encompasses allowances for current known and inherent losses within the portfolio, to an "expected loss" model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. Furthermore, ASU 2016-13 will necessitate that we establish an allowance for expected credit losses on debt securities. While we are currently unable to reasonably estimate the impact of adopting ASU 2016-13, we expect that the impact of adoption will be significantly influenced by the composition, characteristics and quality of our loan and securities portfolios, as well as the prevailing economic conditions and forecasts, as of the adoption date.

This amendment was originally effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. In July 2019, the FASB proposed changes that would delay the effective date for smaller reporting companies, as defined by the SEC, and other non-SEC reporting entities. In October 2019, the FASB voted in favor of finalizing its proposal to delay the effective date of this standard to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. ASU 2016-13 will be effective for the Company on January 1, 2023. The Company expects to adopt the standard as soon as practicable, based upon progress on the implementation plan. Adoption prior to the revised effective date of January 1, 2023 is permitted by the ASU.

FASB ASC Topic 848 "*Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting*" *Update No. 2020-04.* In March 2020, the FASB issued ASU 2020-04, which is intended to provide temporary optional expedients and exceptions to the GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates. This guidance is effective beginning on March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating the provisions of the amendment and the impact on its future consolidated financial statements.

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NOTE 2. BUSINESS COMBINATIONS

PlainsCapital

On February 21, 2020, the Company completed the acquisition of the Alice and Victoria, Texas branch locations of PlainsCapital Bank (“PlainsCapital”), a wholly-owned subsidiary of Hilltop Holdings Inc., for an aggregate cash consideration of approximately $11.2 million. The acquisition added $48.8 million in total assets, including $45.3 million in loans, and $37.0 million in deposits. As consideration paid was in excess of the net fair value of acquired assets, the Company recorded $0.5 million of goodwill. Goodwill resulted from a combination of synergies and cost savings, and further expansion into south Texas with the addition of two branch locations.

The table below shows the allocation of the consideration paid for certain assets, deposits and other liabilities associated with the Alice and Victoria, Texas locations of PlainsCapital and the goodwill generated from the transaction (dollars in thousands).

Purchase price:		
Cash paid	$	11,162
Fair value of assets acquired:		
Cash and cash equivalents		353
Loans		45,299
Bank premises and equipment		2,770
Core deposit intangible asset		170
Other assets		163
Total assets acquired		48,755
Fair value of liabilities acquired:		
Deposits		36,973
Other liabilities		1,084
Total liabilities assumed		38,057
Fair value of net assets acquired		10,698
Goodwill	$	464

The fair value of net assets acquired includes a fair value adjustment to loans as of the acquisition date. The adjustment for the acquired loan portfolio is based on current market interest rates at the time of acquisition, and the Company’s initial evaluation of credit losses identified. The contractually required principal and interest payments of the loans acquired from PlainsCapital total $51.3 million. No loans acquired from PlainsCapital were considered to be purchased credit impaired loans.

Acquisition Expense

Acquisition related costs of $0.4 million and $0.8 million are included in acquisition expenses in the accompanying consolidated statements of income for the three months ended March 31, 2021 and 2020, respectively. For the three months ended March 31, 2021, these costs are related to the acquisition of Cheaha Financial Group, Inc. which was completed on April 1, 2021. See Note 12. Subsequent Events for further acquisition details. For the three months ended March 31, 2020, these costs include system conversion and integrating operations charges, as well as legal and consulting expenses primarily related to the acquisition of two branches from PlainsCapital.

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NOTE 3. EARNINGS PER SHARE

The following is a summary of the information used in the computation of basic and diluted earnings per share for the three months ended March 31, 2021 and 2020 (in thousands, except share data).

	Three months ended March 31,	
	2021	**2020**
Earnings per common share - basic		
Net income	$ 5,360	$ 608
Less: income allocated to participating securities	(20)	(3)
Net income allocated to common shareholders	5,340	605
Weighted-average basic shares outstanding	10,509,468	11,143,078
Basic earnings per common share	$ 0.51	$ 0.05
Earnings per common share - diluted		
Net income allocated to common shareholders	$ 5,340	$ 605
Weighted-average basic shares outstanding	10,509,468	11,143,078
Dilutive effect of securities	57,705	68,265
Total weighted average diluted shares outstanding	10,567,173	11,211,343
Diluted earnings per common share	$ 0.51	$ 0.05

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

	Three months ended March 31,	
	2021	**2020**
Stock options	—	3,782
Restricted stock awards	209	295
Restricted stock units	8,242	64,780

NOTE 4. INVESTMENT SECURITIES

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

	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
March 31, 2021				
Obligations of U.S. government agencies and corporations	$ 38,230	$ 160	$ (54)	$ 38,336
Obligations of state and political subdivisions	22,094	712	(95)	22,711
Corporate bonds	29,206	433	(131)	29,508
Residential mortgage-backed securities	138,163	1,955	(752)	139,366
Commercial mortgage-backed securities	71,617	647	(752)	71,512
Total	$ 299,310	$ 3,907	$ (1,784)	$ 301,433

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
Obligations of U.S. government agencies and corporations	$ 36,648	$ 201	$ (28)	$ 36,821
Obligations of state and political subdivisions	21,650	490	(3)	22,137
Corporate bonds	27,583	348	(223)	27,708
Residential mortgage-backed securities	119,934	2,675	(11)	122,598
Commercial mortgage-backed securities	58,098	1,202	(154)	59,146
Total	$ 263,913	$ 4,916	$ (419)	$ 268,410

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

	Three months ended March 31,	
	2021	2020
Proceeds from sale	$ 17,123	$ 16,572
Gross gains	$ 602	$ 182
Gross losses	$ (2)	$ (10)

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2021				
Obligations of state and political subdivisions	$ 8,106	$ 217	$ —	$ 8,323
Residential mortgage-backed securities	3,860	158	—	4,018
Total	$ 11,966	$ 375	$ —	$ 12,341

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
Obligations of state and political subdivisions	$ 8,225	$ 12	$ —	$ 8,237
Residential mortgage-backed securities	4,209	203	—	4,412
Total	$ 12,434	$ 215	$ —	$ 12,649

Securities are classified in the consolidated balance sheets according to management's intent. The Company had no securities classified as trading as of March 31, 2021 or December 31, 2020.

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The number of AFS securities, fair value, and unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized below as of the dates presented (dollars in thousands). There were no HTM securities in a continuous loss position as of March 31, 2021 or December 31, 2020.

		Less than 12 Months		12 Months or More		Total	
	Count	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2021							
Obligations of U.S. government agencies and corporations	10	$ 6,658	$ (47)	$ 5,754	$ (7)	$ 12,412	$ (54)
Obligations of state and political subdivisions	5	2,726	(95)	—	—	2,726	(95)
Corporate bonds	15	3,921	(114)	1,983	(17)	5,904	(131)
Residential mortgage-backed securities	40	56,937	(752)	—	—	56,937	(752)
Commercial mortgage-backed securities	53	20,922	(624)	13,140	(128)	34,062	(752)
Total	123	$ 91,164	$ (1,632)	$ 20,877	$ (152)	$ 112,041	$ (1,784)

		Less than 12 Months		12 Months or More		Total	
	Count	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020							
Obligations of U.S. government agencies and corporations	12	$ 9,080	$ (19)	$ 4,043	$ (9)	$ 13,123	$ (28)
Obligations of state and political subdivisions	4	505	(3)	204	—	709	(3)
Corporate bonds	22	6,970	(133)	2,559	(90)	9,529	(223)
Residential mortgage-backed securities	6	11,070	(11)	—	—	11,070	(11)
Commercial mortgage-backed securities	26	6,921	(57)	7,965	(97)	14,886	(154)
Total	70	$ 34,546	$ (223)	$ 14,771	$ (196)	$ 49,317	$ (419)

Unrealized losses are generally due to changes in interest rates. Beginning in the first quarter of 2020, the COVID-19 pandemic has led to ongoing disruption and volatility in the capital markets, causing fluctuations of fair values across asset classes. The Company has the intent to hold these securities either until maturity or a forecasted recovery, and it is more likely than not that the Company will not have to sell the securities before the recovery of their amortized cost basis. Due to the nature of the investment, current market prices, and the current interest rate environment, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2021 or December 31, 2020.

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

	Securities Available For Sale		Securities Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
March 31, 2021				
Due within one year	$ 1,493	$ 1,503	$ 830	$ 851
Due after one year through five years	14,095	14,291	2,745	2,845
Due after five years through ten years	65,135	65,986	4,531	4,626
Due after ten years	218,587	219,653	3,860	4,019
Total debt securities	$ 299,310	$ 301,433	$ 11,966	$ 12,341

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	Securities Available For Sale		Securities Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
December 31, 2020				
Due within one year	$ 1,669	$ 1,691	$ 830	$ 832
Due after one year through five years	12,937	13,014	2,745	2,751
Due after five years through ten years	64,159	64,865	4,650	4,654
Due after ten years	185,148	188,840	4,209	4,412
Total debt securities	$ 263,913	$ 268,410	$ 12,434	$ 12,649

At March 31, 2021, securities with a carrying value of $101.0 million were pledged to secure certain deposits, borrowings, and other liabilities, compared to $84.6 million in pledged securities at December 31, 2020.

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	March 31, 2021	December 31, 2020
Construction and development	$ 190,816	$ 206,011
1-4 Family	341,266	339,525
Multifamily	60,844	60,724
Farmland	24,145	26,547
Commercial real estate	829,880	812,395
Total mortgage loans on real estate	1,446,951	1,445,202
Commercial and industrial	380,534	394,497
Consumer	18,485	20,619
Total loans	$ 1,845,970	$ 1,860,318

Unamortized premiums and discounts on loans, included in the total loans balances above, were $1.6 million and $1.8 million at March 31, 2021 and December 31, 2020, respectively, and unearned income, or deferred fees, on loans was $4.1 million and $3.2 million at March 31, 2021 and December 31, 2020, respectively.

In the second quarter of 2020, the Bank began participating as a lender in the Small Business Administration's ("SBA") and U.S. Department of Treasury's Paycheck Protection Program ("PPP") as established by the CARES Act and enhanced by the Paycheck Protection Program and Health Care Enhancement Act and the Paycheck Protection Program Flexibility Act of 2020 ("Flexibility Act"). The PPP was established to provide unsecured low interest rate loans to small businesses that have been impacted by the COVID-19 pandemic. The PPP loans are 100% guaranteed by the SBA. The loans have a fixed interest rate of 1% with deferred payments, and if originated before June 5, 2020, mature two years from origination, or if made on or after June 5, 2020, five years from origination. PPP loans are forgiven by the SBA (which makes forgiveness payments directly to the lender) to the extent the borrower uses the proceeds of the loan for certain purposes (primarily to fund payroll costs) during a certain time period following origination and maintains certain employee and compensation levels. Lenders receive processing fees from the SBA for originating the PPP loans which are based on a percentage of the loan amount. In July 2020, the CARES Act was amended to extend the SBA's authority to make commitments under the PPP, which had previously expired on June 30, 2020. The PPP resumed taking applications on July 6, 2020, and the new deadline to apply for a PPP loan ended on August 8, 2020. On December 27, 2020, the CAA, a $900 billion aid package, was enacted that renewed the PPP and allocated additional funding for new first time PPP loans under the original PPP and also authorized second draw PPP loans for certain eligible borrowers that had previously received a PPP loan. The SBA began accepting applications on the next round of the PPP in January 2021, and the application period was extended from March 31, 2021 to May 31, 2021, subject to the availability of funds. Congress passed the American Rescue Plan Act of 2021, an additional $1.9 trillion stimulus package, including additional funding for the PPP, in March 2021. At March 31, 2021 and December 31, 2020 the Company's loan portfolio included PPP loans with balances of $106.6 million and $94.5 million, respectively, all of which are included in commercial and industrial loans.

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

	March 31, 2021							
		Accruing						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Past Due & Nonaccrual	Acquired Impaired Loans	Total Loans
Construction and development	$ 190,249	$ 50	$ —	$ —	$ 517	$ 567	$ —	$ 190,816
1-4 Family	338,679	1,186	89	61	876	2,212	375	341,266
Multifamily	60,844	—	—	—	—	—	—	60,844
Farmland	22,141	—	—	—	303	303	1,701	24,145
Commercial real estate	826,077	79	—	40	3,150	3,269	534	829,880
Total mortgage loans on real estate	1,437,990	1,315	89	101	4,846	6,351	2,610	1,446,951
Commercial and industrial	373,092	77	20	1,604	5,741	7,442	—	380,534
Consumer	18,074	67	14	—	293	374	37	18,485
Total loans	$ 1,829,156	$ 1,459	$ 123	$ 1,705	$ 10,880	$ 14,167	$ 2,647	$ 1,845,970

	December 31, 2020							
		Accruing						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Past Due & Nonaccrual	Acquired Impaired Loans	Total Loans
Construction and development	$ 205,002	$ 488	$ —	$ —	$ 521	$ 1,009	$ —	$ 206,011
1-4 Family	335,710	1,085	734	—	1,615	3,434	381	339,525
Multifamily	60,724	—	—	—	—	—	—	60,724
Farmland	24,333	297	—	216	—	513	1,701	26,547
Commercial real estate	807,243	1,472	118	—	1,771	3,361	1,791	812,395
Total mortgage loans on real estate	1,433,012	3,342	852	216	3,907	8,317	3,873	1,445,202
Commercial and industrial	386,607	359	273	105	6,907	7,644	246	394,497
Consumer	20,135	79	21	—	346	446	38	20,619
Total loans	$ 1,839,754	$ 3,780	$ 1,146	$ 321	$ 11,160	$ 16,407	$ 4,157	$ 1,860,318

Nonaccrual and Past Due Loans

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

Certain borrowers are currently experiencing difficulties meeting their contractual payment obligations because of the adverse economic effects attributable to the COVID-19 pandemic. As a result, loan customers may apply for payment deferrals, or portions thereof, for up to 90 days. In the absence of other contributing factors, these short-term modifications made on a good faith basis are not considered TDRs, nor are loans granted payment deferrals related to COVID-19 reported as past due or placed on non-accrual status if the loans were not past due or on non-accrual status prior to the deferral. See Note 1. Summary of Significant Accounting Policies for further discussion.

Loans Acquired with Deteriorated Credit Quality

The Company accounts for certain loans acquired as acquired impaired loans under ASC 310-30 due to evidence of credit deterioration at acquisition and the probability that the Company will be unable to collect all contractually required payments. The acquired impaired loans had no accretable yield recorded for the three months ended March 31, 2021 and 2020.

Portfolio Segment Risk Factors

The following describes the risk characteristics relevant to each of the Company’s loan portfolio segments.

Construction and Development - Construction and development loans are generally made for the purpose of acquisition and development of land to be improved through the construction of commercial and residential buildings. The successful repayment of these types of loans is generally dependent upon a commitment for permanent financing from the Company, or from the sale of the constructed property. These loans carry more risk than commercial or residential real estate loans due to the dynamics of construction projects, changes in interest rates, the long-term financing market, and state and local government regulations. One such risk is that loan funds are advanced upon the security of the property under construction, which is of uncertain value prior to the completion of construction. Thus, it is more difficult to evaluate accurately the total loan funds required to complete a project and to calculate related loan-to-value ratios. The Company attempts to minimize the risks associated with construction lending by limiting loan-to-value ratios as described above. In addition, as to speculative development loans, the Company generally makes such loans only to borrowers that have a positive pre-existing relationship with us. The Company manages risk by using specific underwriting policies and procedures for these types of loans and by avoiding excessive concentrations in any one business or industry.

1-4 Family - The 1-4 family portfolio mainly consists of residential mortgage loans to consumers to finance a primary residence. The majority of these loans are secured by properties located in the Company’s market areas and carry risks associated with the creditworthiness of the borrower and changes in the value of the collateral and loan-to-value-ratios. The Company manages these risks through policies and procedures such as limiting loan-to-value ratios at origination, employing experienced underwriting personnel, requiring standards for appraisers, and not making subprime loans.

Multifamily - Multifamily loans are normally made to real estate investors to support permanent financing for multifamily residential income producing properties that rely on the successful operation of the property for repayment. This management mainly involves property maintenance and collection of rents due from tenants. This type of lending carries a lower level of risk, as compared to other commercial lending. In addition, underwriting requirements for multifamily properties are stricter than for other non-owner-occupied property types. The Company manages this risk by avoiding concentrations with any particular customer.

Farmland - Farmland loans are often for land improvements related to agricultural endeavors and may include construction of new specialized facilities. These loans are usually repaid through the conversion to permanent financing, or if scheduled loan amortization begins, for the long-term benefit of the borrower’s ongoing operations. Underwriting generally involves intensive analysis of the financial strength of the borrower and guarantor, liquidation value of the subject collateral, the associated unguaranteed exposure, and any available secondary sources of repayment, with the greatest emphasis given to a borrower’s capacity to meet cash flow coverage requirements as set forth by Bank policies.

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Commercial Real Estate - Commercial real estate loans are extensions of credit secured by owner occupied and non-owner occupied collateral. Underwriting generally involves intensive analysis of the financial strength of the borrower and guarantor, liquidation value of the subject collateral, the associated unguaranteed exposure, and any available secondary sources of repayment, with the greatest emphasis given to a borrower's capacity to meet cash flow coverage requirements as set forth by Bank policies. Repayment is commonly derived from the successful ongoing operations of the property. General market conditions and economic activity may impact the performance of these types of loans, including fluctuations in the value of real estate, new job creation trends, and tenant vacancy rates. The Company attempts to limit risk by analyzing a borrower's cash flow and collateral value on an ongoing basis. The Company also typically requires personal guarantees from the principal owners of the property, supported by a review of their personal financial statements, as an additional means of mitigating our risk. The Company manages risk by avoiding concentrations in any one business or industry.

Commercial and Industrial - Commercial and industrial loans receive similar underwriting treatment as commercial real estate loans in that the repayment source is analyzed to determine its ability to meet cash flow coverage requirements as set forth by Bank policies. Repayment of these loans generally comes from the generation of cash flow as the result of the borrower's business operations. Commercial lending generally involves different risks from those associated with commercial real estate lending or construction lending. Although commercial loans may be collateralized by equipment or other business assets (including real estate, if available as collateral), the repayment of these types of loans depends primarily on the creditworthiness and projected cash flow of the borrower (and any guarantors). Thus, the general business conditions of the local economy and the borrower's ability to sell its products and services, thereby generating sufficient operating revenue to repay us under the agreed upon terms and conditions, are the chief considerations when assessing the risk of a commercial loan. The liquidation of collateral, if any, is considered a secondary source of repayment because equipment and other business assets may, among other things, be obsolete or of limited resale value. The Company actively monitors certain financial measures of the borrower, including advance rate, cash flow, collateral value and other appropriate credit factors.

Consumer - Consumer loans are offered by the Company in order to provide a full range of retail financial services to its customers and include auto loans, credit cards, and other consumer installment loans. Typically, the Company evaluates the borrower's repayment ability through a review of credit scores and an evaluation of debt to income ratios. Repayment of consumer loans depends upon key consumer economic measures and upon the borrower's financial stability, and is more likely to be adversely affected by divorce, job loss, illness and personal hardships than repayment of other loans. A shortfall in the value of any collateral also may pose a risk of loss to the Company for these types of loans.

Credit Quality Indicators

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

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

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

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

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

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

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

	March 31, 2021				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and development	$ 189,087	$ 1,212	$ 517	$ —	$ 190,816
1-4 Family	339,250	—	2,016	—	341,266
Multifamily	60,203	—	641	—	60,844
Farmland	22,141	—	2,004	—	24,145
Commercial real estate	814,704	4,978	10,198	—	829,880
Total mortgage loans on real estate	1,425,385	6,190	15,376	—	1,446,951
Commercial and industrial	355,582	2,259	22,046	647	380,534
Consumer	18,155	—	330	—	18,485
Total loans	$ 1,799,122	$ 8,449	$ 37,752	$ 647	$ 1,845,970

	December 31, 2020				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and development	$ 198,139	$ 7,352	$ 520	$ —	$ 206,011
1-4 Family	337,829	—	1,696	—	339,525
Multifamily	60,724	—	—	—	60,724
Farmland	24,846	—	1,701	—	26,547
Commercial real estate	801,244	4,729	6,422	—	812,395
Total mortgage loans on real estate	1,422,782	12,081	10,339	—	1,445,202
Commercial and industrial	379,451	4,794	9,343	909	394,497
Consumer	20,235	—	384	—	20,619
Total loans	$ 1,822,468	$ 16,875	$ 20,066	$ 909	$ 1,860,318

The Company had no loans that were classified as loss at March 31, 2021 or December 31, 2020.

Loan Participations and Sold Loans

Loan participations and whole loans sold to and serviced for others are not included in the accompanying consolidated balance sheets. The balance of loans serviced for others was $50.3 million and $53.5 million at March 31, 2021 and December 31, 2020, respectively. The unpaid principal balance of these loans was approximately$137.8 million and $154.0 million at March 31, 2021 and December 31, 2020, respectively.

Loans to Related Parties

In the ordinary course of business, the Company makes loans to related parties including its executive officers, principal stockholders, directors and their immediate family members, as well as companies in which these individuals are principal owners. Loans outstanding to such related party borrowers amounted to approximately $94.7 million and $96.4 million as of March 31, 2021 and December 31, 2020, respectively.

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

	March 31, 2021	December 31, 2020
Balance, beginning of period	$ 96,390	$ 98,093
New loans	3,545	12,443
Repayments and changes in relationship	(5,211)	(14,146)
Balance, end of period	$ 94,724	$ 96,390

Allowance for Loan Losses

The table below shows a summary of the activity in the allowance for loan losses for the three months ended March 31, 2021 and 2020 (dollars in thousands).

	Three months ended March 31, 2021	2020
Balance, beginning of period	$ 20,363	$ 10,700
Provision for loan losses	400	3,760
Loans charged off	(405)	(262)
Recoveries	65	35
Balance, end of period	$ 20,423	$ 14,233

The following tables outline the activity in the allowance for loan losses by collateral type for the three months ended March 31, 2021 and 2020, and show both the allowance and portfolio balances for loans individually and collectively evaluated for impairment as of March 31, 2021 and 2020 (dollars in thousands).

	Three months ended March 31, 2021							
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	$ 2,375	$ 435	$ 3,370	$ 589	$ 8,496	$ 4,558	$ 540	$ 20,363
Provision	(140)	(40)	127	107	547	(122)	(79)	400
Charge-offs	—	—	(134)	—	—	(215)	(56)	(405)
Recoveries	10	—	6	—	2	5	42	65
Ending balance	$ 2,245	$ 395	$ 3,369	$ 696	$ 9,045	$ 4,226	$ 447	$ 20,423
Ending allowance balance for loans individually evaluated for impairment	—	—	—	—	175	81	103	359
Ending allowance balance for loans acquired with deteriorated credit quality	—	210	—	—	—	—	—	210
Ending allowance balance for loans collectively evaluated for impairment	2,245	185	3,369	696	8,870	4,145	344	19,854
Loans receivable:								
Balance of loans individually evaluated for impairment	774	302	1,532	—	6,654	8,159	298	17,719
Balance of loans acquired with deteriorated credit quality	—	1,701	375	—	534	—	37	2,647
Balance of loans collectively evaluated for impairment	190,042	22,142	339,359	60,844	822,692	372,375	18,150	1,825,604
Total period-end balance	$ 190,816	$ 24,145	$ 341,266	$ 60,844	$ 829,880	$ 380,534	$ 18,485	$ 1,845,970

	Three months ended March 31, 2020							
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	$ 1,201	$ 101	$ 1,490	$ 387	$ 4,424	$ 2,609	$ 488	$ 10,700
Provision	340	62	1,003	(36)	1,439	683	269	3,760
Charge-offs	—	—	(160)	—	—	(7)	(95)	(262)
Recoveries	13	—	4	—	—	2	16	35
Ending balance	$ 1,554	$ 163	$ 2,337	$ 351	$ 5,863	$ 3,287	$ 678	$ 14,233
Ending allowance balance for								

loans individually evaluated for impairment	—	—	—	—	—	13	175	188
Ending allowance balance for loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—
Ending allowance balance for loans collectively evaluated for impairment	1,554	163	2,337	351	5,863	3,274	503	14,045
Loans receivable:								
Balance of loans individually evaluated for impairment	1,097	—	1,763	—	47	155	512	3,574
Balance of loans acquired with deteriorated credit quality	—	2,264	405	—	1,564	1,042	38	5,313
Balance of loans collectively evaluated for impairment	190,500	27,109	326,562	61,709	774,743	312,653	27,631	1,720,907
Total period-end balance	$ 191,597	$ 29,373	$ 328,730	$ 61,709	$ 776,354	$ 313,850	$ 28,181	$ 1,729,794

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Impaired Loans

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

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

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

	March 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Construction and development	$ 774	$ 782	$ —
1-4 Family	1,532	1,588	—
Farmland	302	302	—
Commercial real estate	5,341	5,410	—
Total mortgage loans on real estate	7,949	8,082	—
Commercial and industrial	8,074	9,325	—
Consumer	127	145	—
Total	16,150	17,552	—
With related allowance recorded:			
Commercial real estate	1,313	1,344	175
Total mortgage loans on real estate	1,313	1,344	175
Commercial and industrial	85	85	81
Consumer	171	212	103
Total	1,569	1,641	359
Total loans:			
Construction and development	774	782	—
1-4 Family	1,532	1,588	—
Farmland	302	302	—
Commercial real estate	6,654	6,754	175
Total mortgage loans on real estate	9,262	9,426	175
Commercial and industrial	8,159	9,410	81
Consumer	298	357	103
Total	$ 17,719	$ 19,193	$ 359

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	December 31, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Construction and development	$ 782	$ 800	$ —
1-4 Family	2,280	2,353	—
Commercial real estate	6,666	6,721	—
Total mortgage loans on real estate	9,728	9,874	—
Commercial and industrial	8,841	9,953	—
Consumer	126	143	—
Total	18,695	19,970	—
With related allowance recorded:			
Commercial and industrial	261	260	80
Consumer	221	265	130
Total	482	525	210
Total loans:			
Construction and development	782	800	—
1-4 Family	2,280	2,353	—
Commercial real estate	6,666	6,721	—
Total mortgage loans on real estate	9,728	9,874	—
Commercial and industrial	9,102	10,213	80
Consumer	347	408	130
Total	$ 19,177	$ 20,495	$ 210

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

	Three months ended March 31,			
	2021		2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Construction and development	$ 777	$ 5	$ 528	$ 2
1-4 Family	1,541	9	1,754	2
Farmland	244	—	—	—
Commercial real estate	5,370	46	47	—
Total mortgage loans on real estate	7,932	60	2,329	4
Commercial and industrial	8,067	42	109	1
Consumer	120	—	185	1
Total	16,119	102	2,623	6
With related allowance recorded:				
Commercial real estate	1,326	—	—	—
Total mortgage loans on real estate	1,326	—	—	—
Commercial and industrial	202	—	13	—
Consumer	177	—	312	1
Total	1,705	—	325	1
Total loans:				
Construction and development	777	5	528	2
1-4 Family	1,541	9	1,754	2
Farmland	244	—	—	—
Commercial real estate	6,696	46	47	—
Total mortgage loans on real estate	9,258	60	2,329	4
Commercial and industrial	8,269	42	122	1
Consumer	297	—	497	2
Total	$ 17,824	$ 102	$ 2,948	$ 7

Troubled Debt Restructurings

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

Loans classified as TDRs, consisting of 33 credits, totaled $13.8 million at March 31, 2021, compared to 34 credits totaling $14.7 million at December 31, 2020. At March 31, 2021, twelve of the restructured loans were considered TDRs due to modification of terms through adjustments to maturity, nine restructured loans were considered TDRs due to principal payment forbearance paying interest only for a specified period of time, seven of the restructured loans were considered TDRs due to a reduction in the interest rate to a rate lower than the current market rate, four of the restructured loans were considered TDRs due to principal and interest payment forbearance, and one restructured loan was considered a TDR due to a reduction in principal payments on a modified payment schedule.

As of March 31, 2021, one $1.3 million commercial real estate TDR was in default of its modified terms and is included in nonaccrual loans. At December 31, 2020, none of the TDRs were in default of their modified terms and included in nonaccrual loans. The Company individually evaluates each TDR for allowance purposes, primarily based on collateral value, and excludes these loans from the loan population that is collectively evaluated for impairment.

There was one loan modified under TDR during the previous twelve month period that subsequently defaulted during the three months ended March 31, 2021. No TDRs defaulted on their modified terms during the three months ended March 31, 2020.

At March 31, 2021 and December 31, 2020, there were no available balances on loans classified as TDRs that the Company was committed to lend.

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NOTE 6. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Income (Loss)

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

	Three months ended March 31,					
	2021			2020		
	Beginning of Period	Net Change	End of Period	Beginning of Period	Net Change	End of Period
Unrealized gain (loss), available for sale, net	$ 7,493	$ (1,401)	$ 6,092	$ 3,476	$ 562	$ 4,038
Reclassification of realized gain, net	(3,939)	(474)	(4,413)	(2,131)	(136)	(2,267)
Unrealized loss, transfer from available for sale to held to maturity, net	3	—	3	4	—	4
Change in fair value of interest rate swap designated as a cash flow hedge, net	(1,752)	6,065	4,313	542	(2,511)	(1,969)
Accumulated other comprehensive income (loss)	$ 1,805	$ 4,190	$ 5,995	$ 1,891	$ (2,085)	$ (194)

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

As part of its liability management, the Company utilizes pay-fixed interest rate swaps to manage exposure against the variability in the expected future cash flows (future interest payments) attributable to changes in the 1-month LIBOR associated with the forecasted issuances of 1-month fixed rate debt arising from a rollover strategy. The maximum length of time over which the Company is currently hedging its exposure to the variability in future cash flows for forecasted transactions is approximately 9.4 years. At March 31, 2021 and December 31, 2020, the Company had interest rate swap agreements with a total notional amount of $80.0 million and forward starting interest rate swap agreements with a total notional amount of $140.0 million, all of which were designated as cash flow hedges. The interest rate swaps were determined to be fully effective during the periods presented, and therefore no amount of ineffectiveness has been included in net income. The derivative contracts are between the Company and a single counterparty. To mitigate credit risk, securities are pledged to the Company by the counterparty in an amount greater than or equal to the gain position of the derivative contracts. Conversely, securities are pledged to the counterparty by the Company in an amount greater than or equal to the loss position of the derivative contracts, if applicable.

For the three months ended March 31, 2021, a gain of $6.1 million, net of a $1.6 million tax expense, has been recognized in "Other comprehensive income (loss)" in the accompanying consolidated statements of comprehensive income (loss) for the change in fair value of the interest rate swaps compared to a loss of $2.5 million, net of a $0.7 million tax benefit, recognized for the three months ended March 31, 2020.

The fair value of the swap contracts consisted of gross assets of $7.0 million and gross liabilities of $1.5 million, netting to a fair value of $5.5 million recorded in "Other assets" in the accompanying consolidated balance sheet at March 31, 2021. The fair value of the swap contracts consisted of gross liabilities of $2.8 million and gross assets $0.6 million, netting to a fair value of $2.2 million recorded in "Accrued taxes and other liabilities" in the accompanying consolidated balance sheet at December 31, 2020. The accumulated gain of $4.3 million included in "Accumulated other comprehensive income" in the accompanying consolidated balance sheet as of March 31, 2021 would be reclassified to current earnings if the hedge transactions become probable of not occurring. The Company expects the hedges to remain fully effective during the remaining term of the swap contracts.

Customer Derivatives – Interest Rate Swaps

The Company enters into interest rate swaps that allow commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to an interest rate swap agreement, which serves to effectively swap the customer's variable-rate loan into a fixed-rate loan. The Company then enters into a corresponding swap agreement with a third party in order to economically hedge its exposure through the customer agreement. The interest rate swaps with both the customers and third parties are not designated as hedges under FASB ASC Topic 815, *Derivatives and Hedging*, and are marked to market through earnings. As the interest rate swaps are structured to offset each other, changes to the underlying benchmark interest rates considered in the valuation of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit quality variations between counterparties, which may impact earnings as required by FASB ASC Topic 820, *Fair Value Measurement and Disclosure* ("ASC 820"). The Company did not recognize any gains or losses in other income resulting from fair value adjustments during the three months ended March 31, 2021 and 2020.

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NOTE 8. FAIR VALUES OF FINANCIAL INSTRUMENTS

In accordance with ASC 820, disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, is required. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. Fair value is best determined based upon quoted market prices, or exit prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows, and the fair value estimates may not be realized in an immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

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

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

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

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

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

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

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

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

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

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

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Based on market reference data, which may include reported trades; bids, offers or broker/dealer quotes; benchmark yields and spreads; as well as other reference data, management monitors the current placement of securities in the fair value hierarchy to determine whether transfers between levels may be warranted. At March 31, 2021, all of our level 3 investments were obligations of state and political subdivisions. The Company estimated the fair value of these level 3 investments using discounted cash flow models, the key inputs of which are the coupon rate, current spreads to the yield curves, and expected repayment dates, adjusted for illiquidity of the local municipal market and sinking funds, if applicable. Option-adjusted models may be used for structured or callable notes, as appropriate.

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

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

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

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

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

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

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Fair Value of Assets and Liabilities Measured on a Recurring Basis

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

	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2021				
Assets:				
Obligations of U.S. government agencies and corporations	$ 38,336	$ —	$ 38,336	$ —
Obligations of state and political subdivisions	22,711	—	4,762	17,949
Corporate bonds	29,508	—	29,508	—
Residential mortgage-backed securities	139,366	—	139,366	—
Commercial mortgage-backed securities	71,512	—	71,512	—
Equity securities	1,800	1,800	—	—
Derivative financial instruments	5,461	—	5,461	—
Total assets	$ 308,694	$ 1,800	$ 288,945	$ 17,949
December 31, 2020				
Assets:				
Obligations of U.S. government agencies and corporations	$ 36,821	$ —	$ 36,821	$ —
Obligations of state and political subdivisions	22,137	—	3,621	18,516
Corporate bonds	27,708	—	27,708	—
Residential mortgage-backed securities	122,598	—	122,598	—
Commercial mortgage-backed securities	59,146	—	59,146	—
Equity securities	1,670	1,670	—	—
Total assets	$ 270,080	$ 1,670	$ 249,894	$ 18,516
Liabilities:				
Derivative financial instruments	$ 2,216	$ —	$ 2,216	$ —

The Company reviews fair value hierarchy classifications on a quarterly basis. Changes in the Company's ability to observe inputs to the valuation may cause reclassification of certain assets or liabilities within the fair value hierarchy. The tables below provide a reconciliation for assets measured at fair value on a recurring basis using significant unobservable inputs, or level 3 inputs, for the three months ended March 31, 2021 and 2020 (dollars in thousands).

	Obligations of State and Political Subdivisions
Balance at December 31, 2020	$ 18,516
Realized gains (losses) included in earnings	—
Unrealized losses included in other comprehensive income (loss)	(567)
Purchases	—
Sales	—
Maturities, prepayments, and calls	—
Transfers into level 3	—
Transfers out of level 3	—
Balance at March 31, 2021	$ 17,949

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	Obligations of State and Political Subdivisions
Balance at December 31, 2019	$ 19,375
Realized gains (losses) included in earnings	—
Unrealized losses included in other comprehensive income (loss)	(2,502)
Purchases	—
Sales	—
Maturities, prepayments, and calls	—
Transfers into level 3	—
Transfers out of level 3	—
Balance at March 31, 2020	$ 16,873

There were no liabilities measured at fair value on a recurring basis using level 3 inputs at March 31, 2021 and December 31, 2020. For the three months ended March 31, 2021 and 2020, there were no gains or losses included in earnings related to the change in fair value of the assets measured on a recurring basis using significant unobservable inputs held at the end of the period.

The following table provides quantitative information about significant unobservable inputs used in fair value measurements of Level 3 assets measured at fair value on a recurring basis at March 31, 2021 or December 31, 2020 (dollars in thousands):

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Discounts
March 31, 2021				
Obligations of State and Political Subdivisions	$ 17,949	Option-adjusted discounted cash flow model; present value of expected future cash flow model	Bond Appraisal Adjustment(1)	0%
December 31, 2020				
Obligations of State and Political Subdivisions	$ 18,516	Option-adjusted discounted cash flow model; present value of expected future cash flow model	Bond Appraisal Adjustment(1)	0% - 0.4%

(1) Fair values determined through valuation analysis using coupon, yield (discount margin), liquidity and expected repayment dates.

Fair Value of Assets and Liabilities Measured on a Nonrecurring Basis

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Quantitative information about assets measured at fair value on a nonrecurring basis based on significant unobservable inputs (level 3) is summarized below as of the dates indicated; there were no liabilities measured on a nonrecurring basis at March 31, 2021 or December 31, 2020 (dollars in thousands).

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Discounts	Weighted Average Discount
March 31, 2021					
Impaired loans	$ 1,146	Discounted cash flows, Underlying collateral value	Collateral discounts and estimated costs to sell	5% - 13%	13%
December 31, 2020					
Impaired loans	$ 259	Discounted cash flows, Underlying collateral value	Collateral discounts and estimated costs to sell	2% - 100%	34%
Other real estate owned	635	Underlying collateral value, Third party appraisals	Collateral discounts and discount rates	4%	4%

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

	March 31, 2021				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 99,370	$ 99,370	$ 99,370	$ —	$ —
Federal funds sold	97	97	97	—	—
Investment securities	313,399	313,774	—	287,502	26,272
Equity securities	16,763	16,763	1,800	14,963	—
Loans, net of allowance	1,825,547	1,848,567	—	1,848,567	—
Derivative financial instruments	5,461	5,461	—	5,461	—
Financial liabilities:					
Deposits, noninterest-bearing	$ 515,487	$ 515,487	$ —	$ 515,487	$ —
Deposits, interest-bearing	1,494,393	1,520,587	—	—	1,520,587
FHLB short-term advances and repurchase agreements	8,274	8,274	—	8,274	—
FHLB long-term advances	78,500	78,353	—	—	78,353
Junior subordinated debt	5,962	2,556	—	—	2,556
Subordinated debt	43,600	39,937	—	39,937	—

	December 31, 2020				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 35,368	$ 35,368	$ 35,368	$ —	$ —
Investment securities	280,844	281,059	—	254,306	26,753
Equity securities	16,599	16,599	1,670	14,929	—
Loans, net of allowance	1,839,955	1,861,971	—	—	1,861,971
Financial liabilities:					
Deposits, noninterest-bearing	$ 448,230	$ 448,230	$ —	$ 448,230	$ —
Deposits, interest-bearing	1,439,594	1,504,644	—	—	1,504,644
FHLB short-term advances and repurchase agreements	47,653	47,653	—	47,653	—
FHLB long-term advances	78,500	82,101	—	—	82,101
Junior subordinated debt	5,949	5,299	—	—	5,299
Subordinated debt	43,600	42,336	—	42,336	—
Derivative financial instruments	2,216	2,216	—	2,216	—

INVESTAR HOLDING CORPORATION
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NOTE 9. INCOME TAXES

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

	Three months ended March 31,	
	2021	2020
Income tax expense	$ 1,430	$ 149
Effective tax rate	21.1%	19.7%

For the three month period ended March 31, 2021, the effective tax rate differs from the statutory tax rate of 21% primarily due to an increase in state taxes and the impact of share-based compensation. For the three month period ended March 31, 2020, the effective tax rate differs from the statutory tax rate of 21% primarily due to tax exempt interest income earned on certain investment securities.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Unfunded Commitments

The Company is a party to financial instruments with off-balance-sheet risk entered into in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit consisting of loan commitments and standby letters of credit, which are not included in the accompanying financial statements. Such financial instruments are recorded in the financial statements when they become payable. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded loan commitments is included in other liabilities in the consolidated balance sheets and was $0.3 million and $0.2 million at March 31, 2021 and December 31, 2020, respectively.

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

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

	March 31, 2021	December 31, 2020
Commitments to extend credit		
Loan commitments	$ 290,043	$ 266,039
Standby letters of credit	14,412	14,420

Additionally, at March 31, 2021, the Company had unfunded commitments of $1.0 million for its investment in Small Business Investment Company qualified funds.

INVESTAR HOLDING CORPORATION
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NOTE 11. LEASES

The Company's primary leasing activities relate to certain real estate leases entered into in support of the Company's branch operations. The Company's branch locations operated under lease agreements have all been designated as operating leases. The Company does not lease equipment under operating leases, nor does it have leases designated as finance leases.

The Company determines if an arrangement is a lease at inception. Operating leases, with the exception of short-term leases, are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in Bank premises and equipment, net and Accrued taxes and other liabilities, respectively, in the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease pre-payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease. When it is reasonably certain that the Company will exercise an option to extend a lease, the extension is included in the lease term when calculating the present value of lease payments.

Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which the Company has elected to account for separately, as the non-lease component amounts are readily determinable.

Quantitative information regarding the Company's operating leases is presented below as of and for the three months ended March 31, 2021 and 2020 (dollars in thousands).

	March 31,	
	2021	**2020**
Total operating lease cost	$ 152	$ 133
Weighted-average remaining lease term (in years)	8.4	9.2
Weighted-average discount rate	2.8%	2.8%

At March 31, 2021, the Company's lease ROU assets and related lease liabilities were $3.7 million and $3.8 million, respectively, and have remaining terms ranging from 3 to 11 years, including extension options if the Company is reasonably certain they will be exercised.

Future minimum lease payments due under non-cancelable operating leases at March 31, 2021 are presented below (dollars in thousands).

2021	$ 447
2022	598
2023	595
2024	515
2025	476
Thereafter	1,691
Total	$ 4,322

At March 31, 2021, the Company had not entered into any material leases that have not yet commenced.

On May 29, 2020, the Bank purchased the first floor of its corporate headquarters building, which is currently occupied by multiple tenants. The Bank assumed the existing leases, all of which are operating leases. The Bank, as lessor, recognized rental income of $79,000 for the three months ended March 31, 2021.

INVESTAR HOLDING CORPORATION
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NOTE 12. SUBSEQUENT EVENTS

On April 1, 2021, the Company completed the previously announced acquisition of Cheaha Financial Group, Inc. ("Cheaha") in Oxford, Alabama. The acquisition was completed pursuant to the terms of the Agreement and Plan of Reorganization (the "Reorganization Agreement"), dated January 21, 2021, by and among the Company, Cheaha, the Bank, and High Point Acquisition, Inc., a Louisiana corporation and wholly-owned subsidiary of the Company.

Under the terms of the Reorganization Agreement, each of the issued and outstanding shares of Cheaha common stock was converted into and represented the right to receive $80.00 in cash from the Company. In the aggregate, Cheaha's shareholders received approximately $41.1 million in cash consideration as a result of the merger. As of March 31, 2021, Cheaha had approximately $238 million in assets, $120 million in net loans, and $206 million in total deposits.

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

Cautionary Note Regarding Forward-Looking Statements

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

- the significant risks and uncertainties for our business, results of operations and financial condition, as well as our regulatory capital and liquidity ratios and other regulatory requirements in the United States caused by the ongoing COVID-19 pandemic, which will depend on several factors, including the scope and duration of the pandemic, its continued influence on the economy and financial markets, the impact on market participants on which we rely, and actions taken by governmental authorities and other third parties in response to the pandemic;

- business and economic conditions generally and in the financial services industry in particular, whether nationally, regionally or in the markets in which we operate; including evolving risks to economic activity and our customers posed by the COVID-19 pandemic and government actions taken to address the impact of COVID-19 or contain it;

- the risk of holding PPP loans at unfavorable rates and on terms that are less favorable than other types of loans, and the Company's ability to pursue available remedies in the event of a loan default of PPP loans under the Paycheck Protection Program;

- our ability to achieve organic loan and deposit growth, and the composition of that growth;

- changes (or the lack of changes) in interest rates, yield curves and interest rate spread relationships that affect our loan and deposit pricing;

- possible cessation or market replacement of LIBOR and the related effect on our LIBOR-based financial products and contracts, including, but not limited to, hedging products, debt obligations, investments, and loans;

- the extent of continuing client demand for the high level of personalized service that is a key element of our banking approach as well as our ability to execute our strategy generally;

- our dependence on our management team, and our ability to attract and retain qualified personnel;

- changes in the quality or composition of our loan or investment portfolios, including adverse developments in borrower industries or in the repayment ability of individual borrowers;

- inaccuracy of the assumptions and estimates we make in establishing reserves for probable loan losses and other estimates;

- the concentration of our business within our geographic areas of operation in Louisiana, Texas and Alabama;

- concentration of credit exposure;

- any deterioration in asset quality and higher loan charge-offs, and the time and effort necessary to resolve problem assets;

- a reduction in liquidity, including as a result of a reduction in the amount of deposits we hold or other sources of liquidity;

- ongoing disruptions in the oil and gas industry due to the significant fluctuations in the price of oil;

- impairment of our goodwill and other intangible assets;

- our potential growth, including our entrance or expansion into new markets, and the need for sufficient capital to support that growth;

- difficulties in identifying attractive acquisition opportunities and strategic partners that will complement our relationship banking approach;

- our ability to complete future acquisitions and efficiently integrate completed acquisitions into our operations, meet the regulatory requirements related to such acquisitions, retain the customers of acquired businesses and grow the acquired operations;

- the impact of litigation and other legal proceedings to which we become subject;

- data processing system failures and errors;

- cyber attacks and other security breaches;

- competitive pressures in the commercial finance, retail banking, mortgage lending and consumer finance industries, as well as the financial resources of, and products offered by, competitors;

- the impact of changes in laws and regulations applicable to us, including banking, securities and tax laws and regulations and accounting standards, as well as changes in the interpretation of such laws and regulations by our regulators;

- changes in the scope and costs of FDIC insurance and other coverages;

- governmental monetary and fiscal policies;

- hurricanes, tropical storms and tropical depressions, floods, winter storms, other natural disasters and adverse weather; oil spills and other man-made disasters that have affected and may affect in the future the Company's market areas; acts of terrorism, an outbreak of hostilities or other international or domestic calamities, acts of God and other matters beyond our control; and

- other circumstances, many of which are beyond our control.

These factors should not be construed as exhaustive. Additional information on these and other risk factors can be found in Item 1A. "Risk Factors" and Item 7. "Special Note Regarding Forward-Looking Statements" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC and in Part II Item 1A. "Risk Factors" of this report.

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

Overview

This section presents management's perspective on the consolidated financial condition and results of operations of the Company and its wholly-owned subsidiary, Investar Bank, National Association (the "Bank"). The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and related notes thereto included herein, and the audited consolidated financial statements for the year ended December 31, 2020, including the notes thereto, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report on Form 10-K that the Company filed with the SEC on March 10, 2021.

Through our wholly-owned subsidiary, the Bank, we provide full banking services, excluding trust services, tailored primarily to meet the needs of individuals and small to medium-sized businesses in our primary areas of operation in south Louisiana including Baton Rouge, New Orleans, Lafayette, Lake Charles, and their surrounding metropolitan areas, in southeast Texas, including Houston and its surrounding metropolitan areas, and Alice and Victoria, Texas, in west Alabama, including York and its surrounding area, and, as of April 1, 2021, east Alabama, including Oxford and its surrounding area. Our Bank commenced operations in 2006 and we completed our initial public offering in July 2014. On July 1, 2019, the Bank changed from a Louisiana state bank charter to a national bank charter and its name changed to Investar Bank, National Association. Our strategy includes organic growth through high quality loans, new branches, and growth through acquisitions. We have completed seven whole-bank acquisitions since 2011 and regularly review acquisition opportunities. We currently operate 23 full service branches in Louisiana, after the closure of one branch on April 30, 2021, five full service branches in Texas, and six full service branches in Alabama.

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

Certain Events That Affect Year-over-Year Comparability

Acquisitions. On February 21, 2020, the Bank completed the acquisition and assumption of certain assets, deposits and other liabilities associated with the Alice and Victoria, Texas locations of PlainsCapital Bank, a wholly-owned subsidiary of Hilltop Holdings Inc. The Bank acquired approximately $45.3 million in loans and $37.0 million in deposits. In addition, the Bank acquired substantially all the fixed assets at the branch locations and assumed the leases for the branch facilities. The Company recorded a core deposit intangible and goodwill of $0.2 million and $0.5 million, respectively, related to the acquisition.

De Novo Branches. We opened a new branch in Lake Charles, Louisiana in July 2020 and a new branch in New Orleans, Louisiana in November 2020. We also closed a branch location in Zachary, Louisiana in October 2020. We do not expect to open de novo branches in 2021.

COVID-19 Pandemic. In March 2020, COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the President of the United States. The global COVID-19 pandemic and the public health response to minimize its impact have had severe adverse and disruptive effects on economic, financial market and oil market conditions beginning in the latter part of the first quarter of 2020, and continuing through the first quarter of 2021 and beyond. Beginning in the first quarter of 2020, government responses to the pandemic included mandated closures of businesses not deemed essential, restrictions on other businesses, and stay-at-home orders or recommendations, along with crowd restrictions, which caused steep increases in unemployment and decreases in consumer and business spending. Government authorities in our markets began allowing the re-opening of businesses and easing other restrictions in the second quarter of 2020; however, the country, including areas in which we do business, experienced multiple periods of resurgences of new cases in both the third and fourth quarters of 2020. Authorities reacted to these resurgences by extending or re-imposing some restrictions. In the first quarter of 2021, though certain regions of the U.S. have faced increased rates of COVID-19 infections, overall our market areas have experienced a decrease in the number of cases compared to the resurgence experienced during the winter months. In response, governmental authorities in our market areas have continued to relax or completely repeal certain restrictions. The extent to which our operations and financial performance will be impacted by the pandemic during the remainder of 2021 will depend in part on future developments, including the long-term efficacy, global availability and acceptance of the vaccines, as well as the effects of governmental stimulus legislation and other actions taken in response to the pandemic.

Legislative and Regulatory Developments. In a measure aimed at lessening the economic impact of COVID-19, the Federal Reserve reduced the federal funds rate to 0 to 0.25% on March 16, 2020. This action by the Federal Reserve followed a prior reduction of the targeted federal funds rates to a range of 1.0% to 1.25% on March 3, 2020. On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), the largest economic stimulus package in the nation's history, which included the Small Business Administration's ("SBA") and U.S. Department of Treasury's Paycheck Protection Program ("PPP"), discussed further below, in an effort to lessen the impact of COVID-19 on consumers and businesses. As funds available under the PPP were quickly depleted, on April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act was signed into law, which, among other things, increased amounts available under the PPP. On June 5, 2020, the Paycheck Protection Program Flexibility Act of 2020 ("Flexibility Act") was enacted, which among other things, provided expanded relief under the PPP. On December 27, 2020, the Consolidated Appropriations Act, 2021 ("CAA") was enacted providing an additional $900 billion in aid to individuals and businesses, which among other things, provided additional funding for the PPP and allowed businesses meeting certain requirements to obtain a second PPP loan. Congress passed the American Rescue Plan Act of 2021 ("Rescue Act"), an additional $1.9 trillion stimulus package, including additional funding for the PPP, in March 2021.

Paycheck Protection Program. Beginning in the second quarter of 2020, the Bank has participated as a lender in the PPP as established by the Flexibility Act. The PPP was established to provide unsecured low interest rate loans to small businesses that have been impacted by the COVID-19 pandemic. The PPP loans are 100% guaranteed by the SBA. The loans have a fixed interest rate of 1% and payments are deferred until the date on which the amount of loan forgiveness is remitted to the lender by the SBA, the forgiveness application is otherwise denied, or if no forgiveness application is filed 10 months after the end of the borrower's covered period. PPP loans made prior to June 5, 2020 mature two years from origination, or if made on or after June 5, 2020, five years from origination. PPP loans are forgiven by the SBA (which makes forgiveness payments directly to the lender) to the extent the borrower uses the proceeds of the loan for certain purposes (primarily to fund payroll costs) during a certain time period following origination and maintains certain employee and compensation levels. Lenders receive processing fees from the SBA for originating the PPP loans which are based on a percentage of the loan amount. The original PPP program ceased taking applications on August 8, 2020. On December 27, 2020, the CAA was enacted that renewed the PPP and allocated additional funding for both new first time PPP loans under the original PPP and also authorized second draw PPP loans for certain eligible borrowers that had previously received a PPP loan. The SBA began accepting applications on the next round of PPP in January 2021, and the application period was extended to May 31, 2021, subject to the availability of funds. The Rescue Act, enacted in March 2021, also provided additional funding for the PPP. At March 31, 2021 and December 31, 2020, our loan portfolio included PPP loans with balances of $106.6 million and $94.5 million, respectively, all of which are included in commercial and industrial loans.

Guidance on Treatment of Pandemic-related Loan Modifications Pursuant to the CARES Act and Interagency Statement. Section 4013 of the CARES Act provides that, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 pandemic declared by the President of the United States under the National Emergencies Act terminates (the "applicable period"), we may elect to suspend GAAP for loan modifications related to the pandemic that would otherwise be categorized as troubled debt restructurings ("TDRs") and suspend any determination of a loan modified as a result of the effects of the pandemic as being a TDR, including impairment for accounting purposes. The suspension is applicable for the term of the loan modification that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019. The suspension is not applicable to any adverse impact on the credit of a borrower that is not related to the pandemic. The CAA extended the applicable period to the earlier of January 1, 2022 or 60 days after the national emergency termination date.

In addition, our banking regulators and other financial regulators, on March 22, 2020 and revised April 7, 2020, issued a joint interagency statement titled the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" that encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of the COVID-19 pandemic. Pursuant to the interagency statement, loan modifications that do not meet the conditions of Section 4013 of the CARES Act may still qualify as a modification that does not need to be accounted for as a TDR. Specifically, the agencies confirmed with the staff of the Financial Accounting Standards Board that short-term modifications made in good faith in response to the pandemic to borrowers who were current prior to any relief are not TDRs under GAAP. This includes short-term (e.g. six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. Appropriate allowances for loan and lease losses are expected to be maintained. With regard to loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to the pandemic as past due because of the deferral. The interagency statement also states that during short-term pandemic-related loan modifications, these loans generally should not be reported as nonaccrual.

Accordingly, we are offering short-term modifications made in response to COVID-19 to borrowers who are current and otherwise not past due. These include short-term modifications of 90 days or less, in the form of deferrals of payment of principal and interest, principal only, or interest only, and fee waivers. See further discussion in the *Loans* section of the Discussion and Analysis of Financial Condition below.

Impact on our Operations. As discussed above, within the states in which we operate, beginning in the first quarter of 2020, many jurisdictions declared health emergencies and executed stay-at-home orders and closed non-essential businesses which impacted our operations as well as the operations of our customers. Though authorities began phasing out certain restrictions in the summer of 2020, resurgences in the number of COVID-19 cases in the second and third quarters of 2020 resulted in the extension and, in some instances, the re-imposition of certain restrictions. For example, Louisiana, where most of our operations are currently located, had entered Phase 3, which eased previous restrictions, in the third quarter of 2020. However, the state subsequently experienced several resurgences in the number of cases in the fall and winter of 2020, which prompted the issuance of an order reverting back to a modified Phase 2 as of November 25, 2020, which was extended through March 2, 2021, when Louisiana re-entered Phase 3. Under Phase 3, generally speaking, places of public amusement are closed, only bars in qualifying parishes may open with stringent restrictions (except for takeout), most other nonessential businesses are restricted to 75% capacity, crowd sizes are limited to 250 people or 50% capacity for indoor gatherings, face coverings are mandatory and all individuals with a higher risk of severe illness from COVID-19 are urged to stay at home. On April 27, 2021, the Louisiana governor announced the termination of the statewide mask mandate (with some exceptions for schools, healthcare facilities, and governmental buildings) and the lifting of certain COVID-19 restrictions on bars, restaurants and other venues. Additionally, effective March 10, 2021, the Texas governor issued an order lifting the state's mask mandate and rescinding most of its restrictions related to COVID-19.

Financial services have been identified as a Critical Infrastructure Sector by the Department of Homeland Security, and therefore, our business remains open. We continue to service our consumer and business customers from our 34 branch locations and through drive-thrus, ATMs, internet banking, mobile application and telephone.

Impact on our financial results. As discussed in further detail below and in our Annual Report on Form 10-K for the year ended December 31, 2020, net income for 2020 decreased compared to 2019, largely due to our increased provision for loan losses during 2020 as a result of the impacts of the pandemic; however, we had record quarterly net income for the first quarter of 2021 as market conditions improved and our cost of funds decreased.

Discussion and Analysis of Financial Condition

For the three months ended March 31, 2021, net income was $5.4 million, or $0.51 per basic and diluted common share, compared to net income of $0.6 million, or $0.05 per basic and diluted common share for the three months ended March 31, 2020. Net income increased primarily due to the lower provision for loan losses, as we recorded a $3.8 million provision in the first quarter of 2020 in response to the changing economic environment amidst the COVID-19 pandemic, compared to a $0.4 million provision in the first quarter of 2021. Net income also increased due to an increase in our net interest income resulting from a significant decrease in our costs of deposits, driven by a reduction in the federal funds target rate. Improvement in our earnings per share resulted from the increase in net income and also from a decrease in our weighted-average shares outstanding due to our stock repurchase activity under our stock repurchase program. For the three months ended March 31, 2021, our net interest margin was 3.64%, return on average assets was 0.92%, and return on average equity was 8.79%. At March 31, 2021, the Company and Bank each were in compliance with all regulatory capital requirements, and the Bank was considered "well-capitalized" under the FDIC's prompt corrective action regulations.

Loans

General. Loans constitute our most significant asset, comprising 77% and 80% of our total assets at March 31, 2021 and December 31, 2020, respectively. Total loans decreased $14.3 million, or 0.8%, to $1.85 billion at March 31, 2021 compared to $1.86 billion at December 31, 2020.

Beginning in the second quarter of 2020, the Bank has participated as a lender in the PPP as established by the CARES Act. At March 31, 2021, the balance, net of repayments, of the Bank's PPP loans originated was $106.6 million, compared to $94.5 million at December 31, 2020, and is included in the commercial and industrial loan portfolio. Eighty-five percent of the total number of PPP loans we have originated have principal balances of $150,000 or less. Excluding PPP loans, total loans decreased $26.5 million, or 1.5%, at March 31, 2021 compared to December 31, 2020. At March 31, 2021, approximately 31% of the total balance of PPP loans originated have been forgiven by the SBA or paid off by the customer.

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

	March 31, 2021		December 31, 2020	
	Amount	**Percentage of Total Loans**	**Amount**	**Percentage of Total Loans**
Construction and development	$ 190,816	10.3%	$ 206,011	11.1%
1-4 Family	341,266	18.5	339,525	18.2
Multifamily	60,844	3.3	60,724	3.3
Farmland	24,145	1.3	26,547	1.4
Commercial real estate				
Owner-occupied	399,393	21.7	375,421	20.2
Nonowner-occupied	430,487	23.3	436,974	23.5
Total mortgage loans on real estate	1,446,951	78.4	1,445,202	77.7
Commercial and industrial	380,534	20.6	394,497	21.2
Consumer	18,485	1.0	20,619	1.1
Total loans	$ 1,845,970	100.0%	$ 1,860,318	100.0%

At March 31, 2021, the Company's business lending portfolio, which consists of loans secured by owner-occupied commercial real estate properties and commercial and industrial loans, was $779.9 million, an increase of $10.0 million, or 1.3%, compared to $769.9 million at December 31, 2020. The increase in the business lending portfolio was driven by the growth in the owner-occupied commercial real estate portfolio and the origination of PPP loans, which are included in the commercial and industrial loans.

Consumer loans totaled $18.5 million at March 31, 2021, a decrease of $2.1 million, or 10.3%, compared to $20.6 million at December 31, 2020. The decrease in consumer loans is mainly attributable to the scheduled paydowns of consumer loans, most of which relate to our former indirect auto loan business.

The following table sets forth loans outstanding at March 31, 2021, which, based on remaining scheduled repayments of principal, are due in the periods indicated. Loans with balloon payments and longer amortizations are often repriced and extended beyond the initial maturity when credit conditions remain satisfactory. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported below as due in one year or less (dollars in thousands).

	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years Through Fifteen Years	After Fifteen Years	Total
Construction and development	$ 146,459	$ 22,190	$ 14,688	$ 7,305	$ 174	$ 190,816
1-4 Family	61,119	79,442	48,115	16,449	136,141	341,266
Multifamily	17,953	38,409	4,120	228	134	60,844
Farmland	7,487	7,590	8,795	273	—	24,145
Commercial real estate						
Owner-occupied	49,061	128,788	153,967	50,653	16,924	399,393
Nonowner-occupied	85,660	156,986	148,680	39,161	—	430,487
Total mortgage loans on real estate	367,739	433,405	378,365	114,069	153,373	1,446,951
Commercial and industrial	153,631	189,372	23,202	6,474	7,855	380,534
Consumer	6,873	10,460	796	353	3	18,485
Total loans	$ 528,243	$ 633,237	$ 402,363	$ 120,896	$ 161,231	$ 1,845,970

Loan Concentrations. Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. At March 31, 2021 and December 31, 2020, we had no concentrations of loans exceeding 10% of total loans other than loans in the categories listed in the table above.

Our loan portfolio includes loans to businesses in certain industries that may be more significantly affected by the pandemic than others. These loans, including loans related to oil and gas, food services, hospitality, and entertainment, represented approximately 6.8% of our total loan portfolio, or 5.7% excluding PPP loans, at March 31, 2021, compared to 6.6% of our total portfolio, or 5.7% excluding PPP loans, at December 31, 2020, as shown in the table below.

Industry	Percentage of Loan Portfolio March 31, 2021	Percentage of Loan Portfolio March 31, 2021 (excluding PPP loans)	Percentage of Loan Portfolio December 31, 2020	Percentage of Loan Portfolio December 31, 2020 (excluding PPP loans)
Oil and gas	3.2%	2.4%	3.3%	2.6%
Food services	2.8	2.5	2.5	2.3
Hospitality	0.4	0.4	0.4	0.4
Entertainment	0.4	0.4	0.4	0.4
Total	**6.8%**	**5.7%**	**6.6%**	**5.7%**

Loan Deferral Program. In response to the COVID-19 pandemic, beginning in the first quarter of 2020, the Bank has offered short-term modifications to borrowers impacted by the pandemic who are current and otherwise not past due. These currently include short-term modifications of 90 days or less, in the form of deferrals of payment of principal and interest, principal only, or interest only, and fee waivers. As of March 31, 2021, the balance of loans participating in the 90-day deferral program was approximately $11.2 million, or 0.6% of the total loan portfolio, compared to $5.9 million, or 0.3% of the total loan portfolio, at December 31, 2020. As 90-day loan deferrals have expired, most customers have returned to their regular payment schedules. The Bank continues to support borrowers experiencing financial hardships related to the pandemic and expects to process additional deferrals requested by qualified borrowers. Therefore, we may experience fluctuations in the balance of loans participating in the deferral program. In accordance with Section 4013 of the CARES Act and the interagency statement, we have not accounted for such loans as TDRs, nor have we designated them as past due or nonaccrual.

Investment Securities

We purchase investment securities primarily to provide a source for meeting liquidity needs, with return on investment a secondary consideration. We also use investment securities as collateral for certain deposits and other types of borrowing. Investment securities represented 13% of our total assets and totaled $313.4 million at March 31, 2021, an increase of $32.6 million, or 11.6%, from $280.8 million at December 31, 2020. The increase in investment securities at March 31, 2021 compared to December 31, 2020 primarily resulted from net purchases of residential mortgage-backed securities.

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

	March 31, 2021		December 31, 2020	
	Balance	Percentage of Portfolio	Balance	Percentage of Portfolio
Obligations of U.S. government agencies and corporations	$ 38,336	12.2%	$ 36,821	13.1%
Obligations of state and political subdivisions	30,817	9.8	30,362	10.8
Corporate bonds	29,508	9.5	27,708	9.8
Residential mortgage-backed securities	143,226	45.7	126,807	45.2
Commercial mortgage-backed securities	71,512	22.8	59,146	21.1
Total	$ 313,399	100.0%	$ 280,844	100.0%

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

The table below sets forth the stated maturities and weighted average yields of our investment debt securities based on the amortized cost of our investment portfolio at March 31, 2021 (dollars in thousands).

	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Held to maturity:								
Obligations of state and political subdivisions	$ 830	5.88%	$ 2,745	5.88%	$ 4,531	3.59%	$ —	—%
Residential mortgage-backed securities	—	—	—	—	—	—	3,860	2.87
Available for sale:								
Obligations of U.S. government agencies and corporations	61	2.50	2,636	2.43	31,805	2.25	3,728	1.51
Obligations of state and political subdivisions	89	2.95	896	3.06	8,042	2.64	13,067	3.89
Corporate bonds	1,343	3.27	9,385	1.53	17,228	4.58	1,250	2.31
Residential mortgage-backed securities	—	—	—	—	312	1.99	137,851	2.13
Commercial mortgage-backed securities	—	—	1,178	2.94	7,748	1.28	62,691	1.93
	$ 2,323		$ 16,840		$ 69,666		$ 222,447	

The maturity of mortgage-backed securities reflects scheduled repayments based upon the contractual maturities of the securities. Weighted average yields on tax-exempt obligations have been computed on a fully tax equivalent basis assuming a federal tax rate of 21%.

Deposits

The following table sets forth the composition of our deposits and the percentage of each deposit type to total deposits at March 31, 2021 and December 31, 2020 (dollars in thousands).

	March 31, 2021		December 31, 2020	
	Amount	Percentage of Total Deposits	Amount	Percentage of Total Deposits
Noninterest-bearing demand deposits	$ 515,487	25.6%	$ 448,230	23.7%
Interest-bearing demand deposits	564,128	28.1	496,745	26.3
Brokered deposits	80,015	4.0	80,017	4.2
Money market deposit accounts	200,744	10.0	186,307	9.9
Savings accounts	154,131	7.7	141,134	7.5
Time deposits	495,375	24.6	535,391	28.4
Total deposits	$ 2,009,880	100.0%	$ 1,887,824	100.0%

Total deposits were $2.01 billion at March 31, 2021, an increase of $122.1 million, or 6.5%, compared to $1.89 billion at December 31, 2020. The COVID-19 pandemic has created a significant amount of excess liquidity in the market, and, as a result, we experienced large increases in both noninterest and interest-bearing demand deposits compared to December 31, 2020. These increases were primarily driven by reduced spending by consumer and business customers related to the COVID-19 pandemic, and increases in PPP borrowers' deposit accounts. We believe these factors may be temporary depending on the future economic effects of the COVID-19 pandemic. The Bank utilized $80.0 million in brokered deposits in the first quarter of 2021 and the fourth quarter of 2020, which are used to satisfy the required borrowings under its interest rate swap agreements, due to more favorable pricing. Management made the strategic decision to either reprice or run-off higher yielding time deposits and other interest-bearing deposit products during the year ended December 31, 2020 and the three months ended March 31, 2021, which contributed to our decreased cost of deposits compared to the three months ended March 31, 2020, discussed in *Results of Operations* below.

Our deposit mix has improved and reflects our consistent focus on relationship banking and growing our commercial relationships, as well as the effects of the pandemic on consumer and business spending.

The following table shows the contractual maturities of certificates of deposit and other time deposits greater than $100,000 at March 31, 2021 and December 31, 2020 (dollars in thousands).

	March 31, 2021		December 31, 2020	
	Certificates of Deposit	Other Time Deposits	Certificates of Deposit	Other Time Deposits
Time remaining until maturity:				
Three months or less	$ 77,726	$ 2,582	$ 78,482	$ 1,733
Over three months through six months	66,292	2,007	73,456	2,619
Over six months through twelve months	97,015	3,807	108,901	3,128
Over one year through three years	80,801	3,888	90,101	4,202
Over three years	6,739	115	10,529	283
	$ 328,573	$ 12,399	$ 361,469	$ 11,965

Borrowings

Total borrowings include securities sold under agreements to repurchase, advances from the Federal Home Loan Bank ("FHLB"), unsecured lines of credit with First National Bankers Bank and The Independent Bankers Bank totaling $60.0 million, subordinated debt issued in 2017 and 2019, and junior subordinated debentures assumed through acquisitions.

Securities sold under agreements to repurchase decreased $1.4 million to $4.3 million at March 31, 2021 from $5.7 million at December 31, 2020. Our advances from the FHLB were $82.5 million at March 31, 2021, a decrease of $38.0 million, or 31.5%, from FHLB advances of $120.5 million at December 31, 2020.

We had no outstanding balances drawn on unsecured lines of credit at March 31, 2021 or December 31, 2020. The carrying value of the subordinated debt was $42.9 million at March 31, 2021 and December 31, 2020. The $6.0 million and $5.9 million in junior subordinated debt at March 31, 2021 and December 31, 2020, respectively, represents the junior subordinated debentures that we assumed through acquisition.

The average balances and cost of funds of short-term borrowings for the three months ended March 31, 2021 and 2020 are summarized in the table below (dollars in thousands).

	Average Balances		Cost of Funds	
	March 31, 2021	March 31, 2020	March 31, 2021	March 31, 2020
Federal funds purchased and other short-term borrowings	$ 6,599	$ 54,482	0.17%	1.36%
Securities sold under agreements to repurchase	4,808	3,081	0.20	0.76
Total short-term borrowings	$ 11,407	$ 57,563	0.18%	1.33%

The main source of our short-term borrowings are advances from the FHLB. The rate charged for these advances is directly tied to the Federal Reserve Bank's federal funds target rate. On March 3, 2020, the Federal Reserve lowered the federal funds target rate to 1.00 to 1.25%, which the Federal Reserve stated was in response to the evolving risks to economic activity posed by the coronavirus. As the coronavirus spread and was declared a pandemic, the Federal Reserve further reduced the federal funds target rate to 0 to 0.25% on March 15, 2020, where it currently remains.

For a description of our subordinated notes, see our Annual Report on Form 10-K for the year ended December 31, 2020, Part II Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Discussion and Analysis of Financial Condition - Borrowings - 2029 Notes and 2027 Notes" and Note 11 to the financial statements included in such report.

Results of Operations

Performance Summary

Three months ended March 31, 2021 vs. three months ended March 31, 2020. For the three months ended March 31, 2021, net income was $5.4 million, or $0.51 per basic and diluted common share, compared to net income of $0.6 million, or $0.05 per basic and diluted common share, for the three months ended March 31, 2020. The primary drivers of the increase in net income are related to the state of the economy and financial markets at March 31, 2020, which led to increased provision for loan losses recorded for the three months ended March 31, 2020, along with a decrease in interest expense for the three months ended March 31, 2021 driven by the reduction in the federal funds target rate, discussed above. As shown on the consolidated statement of income for the three months ended March 31, 2020, a provision for loan losses of $3.8 million was recorded, primarily attributable to the COVID-19 pandemic, compared to a provision for loan losses of $0.4 million for the three months ended March 31, 2021. Improvement in our earnings per share resulted from the increase in net income and also from a decrease in our weighted-average shares outstanding due to our repurchase activity under our stock repurchase program. Return on average assets increased to 0.92% for the three months ended March 31, 2021 compared to 0.11% for the three months ended March 31, 2020. Return on average equity was 8.79% for the three months ended March 31, 2021 compared to 1.00% for the three months ended March 31, 2020.

Net Interest Income and Net Interest Margin

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

Three months ended March 31, 2021 vs. three months ended March 31, 2020. Net interest income increased 13.3% to $19.6 million for the three months ended March 31, 2021 compared to $17.3 million for the same period in 2020. This increase is due primarily to the decrease in the cost of deposits compared to the same period in 2020. Average interest-bearing deposits increased approximately $112.9 million and average short- and long-term borrowings decreased $49.0 million for the three months ended March 31, 2021 compared to the same period in 2020, but we experienced a $3.0 million decrease in interest expense, discussed in more detail below. There was also a $157.3 million increase in average loans, including an average PPP loan balance of $97.3 million, compared to the same period in 2020, but we experienced a $0.6 million decrease in interest income, also discussed in more detail below. The increases in both average loans and interest-bearing deposits resulted from organic growth of the Company.

Interest income was $23.0 million, including $1.4 million of interest and fees for PPP loans, for the three months ended March 31, 2021, compared to $23.6 million for the same period in 2020. Loan interest income made up substantially all of our interest income for the three months ended March 31, 2021 and 2020. An increase in interest income of $2.1 million, can be attributed to an increase in the volume of interest-earning assets, and a decrease of $2.8 million can be attributed to a decrease in the yield earned on those assets. The overall yield on interest-earning assets was 4.26% and 4.71% for the three months ended March 31, 2021 and 2020, respectively. The loan portfolio yielded 4.72% for the three months ended March 31, 2021 compared to 5.11% for the three months ended March 31, 2020, while the yield on the investment portfolio was 1.65% for the three months ended March 31, 2021 compared to 2.45% for the three months ended March 31, 2020.

Interest expense was $3.3 million for the three months ended March 31, 2021, a decrease of $3.0 million compared to interest expense of $6.3 million for the three months ended March 31, 2020. A decrease in interest expense of $0.7 million resulted from the change in volume of interest-bearing liabilities and a decrease of $2.2 million resulted from the decrease in the cost of interest-bearing liabilities. Average interest-bearing liabilities increased approximately $63.8 million for the three months ended March 31, 2021 compared to the same period in 2020 mainly as a result of a $112.9 million increase in interest-bearing deposits. Average short-term and long-term debt decreased. The cost of deposits decreased 84 basis points to 0.63% for the three months ended March 31, 2021 compared to 1.47% for the three months ended March 31, 2020 as a result of the decrease in the rates offered for our all of our interest-bearing deposit products, which are driven by the federal funds target rate. Management also made a strategic decision to either reprice or run-off higher yielding time deposits and other interest-bearing deposit products during 2020 and the first quarter of 2021, which substantially contributed to our decreased cost of deposits compared to the quarter ended March 31, 2020. The cost of interest-bearing liabilities decreased 79 basis points to 0.83% for the three months ended March 31, 2021 compared to 1.62% for the same period in 2020, due to the decrease in the cost of both deposits and short-term borrowings.

Net interest margin was 3.64% for the three months ended March 31, 2021, an increase of 18 basis points from 3.46% for the three months ended March 31, 2020. The increase in net interest margin was primarily driven by a decrease in the cost of interest-bearing liabilities.

Average Balances and Yields. The following table sets forth average balance sheet data, including all major categories of interest-earning assets and interest-bearing liabilities, together with the interest earned or paid and the average yield or rate paid on each such category for the three months ended March 31, 2021 and 2020. Averages presented in the table below are daily averages (dollars in thousands).

	Three months ended March 31,					
	2021			2020		
	Average Balance	Interest Income/ Expense(1)	Yield/ Rate(1)	Average Balance	Interest Income/ Expense(1)	Yield/ Rate(1)
Assets						
Interest-earning assets:						
Loans	$ 1,857,272	$ 21,627	4.72%	$ 1,700,006	$ 21,669	5.11%
Securities:						
Taxable	270,040	1,039	1.56	249,581	1,510	2.43
Tax-exempt	20,228	140	2.81	28,258	185	2.62
Interest-earning balances with banks	38,313	163	1.72	32,366	257	3.18
Total interest-earning assets	2,185,853	22,969	4.26	2,010,211	23,621	4.71
Cash and due from banks	30,335			26,560		
Intangible assets	32,112			31,299		
Other assets	126,750			107,190		
Allowance for loan losses	(20,546)			(10,744)		
Total assets	$ 2,354,504			$ 2,164,516		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand deposits	$ 736,502	$ 685	0.38%	$ 556,541	$ 1,203	0.87%
Brokered deposits	83,832	209	1.01	—	—	—
Savings deposits	146,078	66	0.19	117,153	129	0.44
Time deposits	518,103	1,342	1.05	697,939	3,700	2.13
Total interest-bearing deposits	1,484,515	2,302	0.63	1,371,633	5,032	1.47
Short-term borrowings	11,407	6	0.18	57,563	191	1.33
Long-term debt	127,364	1,027	3.27	130,247	1,063	3.28
Total interest-bearing liabilities	1,623,286	3,335	0.83	1,559,443	6,286	1.62
Noninterest-bearing deposits	466,531			343,884		
Other liabilities	17,451			17,575		
Stockholders' equity	247,236			243,614		
Total liabilities and stockholders' equity	$ 2,354,504			$ 2,164,516		
Net interest income/net interest margin		$ 19,634	3.64%		$ 17,335	3.46%

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

	Three months ended March 31, 2021 vs. Three months ended March 31, 2020		
	Volume	Rate	Net[1]
Interest income:			
Loans	$ 2,005	$ (2,047)	$ (42)
Securities:			
Taxable	124	(595)	(471)
Tax-exempt	(53)	8	(45)
Interest-earning balances with banks	47	(141)	(94)
Total interest-earning assets	2,123	(2,775)	(652)
Interest expense:			
Interest-bearing demand deposits	389	(908)	(519)
Brokered deposits	—	209	209
Savings deposits	32	(94)	(62)
Time deposits	(953)	(1,405)	(2,358)
Short-term borrowings	(153)	(32)	(185)
Long-term debt	(24)	(12)	(36)
Total interest-bearing liabilities	(709)	(2,242)	(2,951)
Change in net interest income	$ 2,832	$ (533)	$ 2,299

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

Noninterest Income

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

Three months ended March 31, 2021 vs. three months ended March 31, 2020. Total noninterest income increased $1.3 million, or 117.2%, to $2.4 million for the three months ended March 31, 2021 compared to $1.1 million for the three months ended March 31, 2020. The increase in noninterest income is mainly attributable to a $0.1 million increase in the fair value of equity securities compared to a loss in fair value of equity securities of $0.8 million during the three months ended March 31, 2020. The change in the fair value of equity securities during the three months ended March 31, 2021 compared to the three months ended March 31, 2020 is attributable to closing prices and mix of equity securities held by the Company at March 31, 2021 and fluctuates with market activity. There was also a $0.4 million increase in the gain on sale of investment securities compared to the three months ended March 31, 2020.

Noninterest Expense

Three months ended March 31, 2021 vs. three months ended March 31, 2020. Total noninterest expense was $14.8 million for the three months ended March 31, 2021, an increase of $0.9 million, or 6.5%, compared to the same period in 2020. The increase is primarily attributable to the $0.7 million and $0.2 million increases in salaries and employee benefits and other operating expenses, respectively. The $0.7 million increase in salaries and employee benefits was driven by an increase in unfavorable health insurance claims, annual employee salary increases that were effective June 1, 2020, and deferred compensation costs. The increase in other operating expenses was driven by the addition of two de novo branches opened in the second and third quarters of 2020. Other operating expenses include, among other things, software expense, bank security, repairs and maintenance, armored car expense, postage, supplies, OCC and FDIC assessments, and bank shares tax.

Income Tax Expense

Income tax expense for the three months ended March 31, 2021 and 2020 was $1.4 million and $0.1 million, respectively. The effective tax rate for the three months ended March 31, 2021 and 2020 was 21.1% and 19.7%, respectively. For the three months ended March 31, 2021, the effective tax rate differs from the statutory tax rate of 21% primarily due an increase in state taxes and the impact of share-based compensation. For the three months ended March 31, 2020, the effective tax rate differs from the statutory tax rate of 21% due to tax exempt interest income earned on certain investment securities.

Risk Management

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

Credit Risk and the Allowance for Loan Losses

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

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

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

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

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

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

At March 31, 2021 and December 31, 2020, there were no loans classified as loss. There was $0.6 million of loans classified as doubtful at March 31, 2021, compared to $0.9 million at December 31, 2020. At March 31, 2021 and December 31, 2020, there were $37.8 million and $20.1 million, respectively, of loans classified as substandard, and $8.4 million and $16.9 million, respectively, of loans classified as special mention. The increase in substandard loans compared to December 31, 2020 was driven by several commercial and industrial loan relationships primarily within the energy sector.

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

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

Allowance for Loan Losses. The allowance for loan losses is an amount that management believes will be adequate to absorb probable losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on an ongoing analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment as recognized under ASC 450, *Contingencies*. Collective impairment is calculated based on loans grouped by type. Another component of the allowance is losses on loans assessed as impaired under ASC 310, *Receivables*. The balance of these loans and their related allowance is included in management's estimation and analysis of the allowance for loan losses. Other considerations in establishing the allowance for loan losses include the nature and volume of the loan portfolio, overall portfolio quality, historical loan loss, review of specific problem loans and current economic conditions that may affect our borrowers' ability to pay, as well as trends within each of these factors. The allowance for loan losses is established after input from management as well as our risk management department and our special assets committee. We evaluate the adequacy of the allowance for loan losses on a quarterly basis. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses was $20.4 million at March 31, 2021 and December 31, 2020.

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

Impaired loans at March 31, 2021, which include TDRs and nonaccrual loans individually evaluated for impairment for purposes of determining the allowance for loan losses, were $17.7 million compared to $19.2 million at December 31, 2020. At March 31, 2021 and December 31, 2020, $0.4 million and $0.2 million, respectively, of the allowance for loan losses was specifically allocated to impaired loans.

The provision for loan losses is a charge to expense in an amount that management believes is necessary to maintain an adequate allowance for loan losses. The provision is based on management's regular evaluation of current economic conditions in our specific markets as well as regionally and nationally, changes in the character and size of the loan portfolio, underlying collateral values securing loans, and other factors which deserve recognition in estimating loan losses. For the three months ended March 31, 2021 and 2020, the provision for loan losses was $0.4 million and $3.8 million, respectively. Additional provision for loan losses was recorded in the three months ended March 31, 2020 primarily as a result of the deterioration of market conditions which were adversely affected by the COVID-19 pandemic. The Company continues to assess the impact the pandemic may have on its loan portfolio to determine the need for additional reserves.

Acquired loans that are accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"), were marked to market on the date we acquired the loans to values which, in management's opinion, reflected the estimated future cash flows, based on the facts and circumstances surrounding each respective loan at the date of acquisition. We continually monitor these loans as part of our normal credit review and monitoring procedures for changes in the estimated future cash flows. Because ASC 310-30 does not permit carry over or recognition of an allowance for loan losses, we may be required to reserve for these loans in the allowance for loan losses through future provision for loan losses if future cash flows deteriorate below initial projections. In 2020, one acquired loan accounted for under ASC 310-30 required a specific reserve of $0.2 million, which was charged to provision for loan losses. There was no additional provision for loan losses recorded for ASC 310-30 loans during the three months ended March 31, 2021.

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

	March 31, 2021	December 31, 2020
Construction and development	$ 2,245	$ 2,375
1-4 Family	3,369	3,370
Multifamily	696	589
Farmland	395	435
Commercial real estate	9,045	8,496
Total mortgage loans on real estate	15,750	15,265
Commercial and industrial	4,226	4,558
Consumer	447	540
Total	$ 20,423	$ 20,363

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

	Three months ended March 31,	
	2021	2020
Allowance at beginning of period	$ 20,363	$ 10,700
Provision for loan losses	400	3,760
Charge-offs:		
Mortgage loans on real estate:		
1-4 Family	(134)	(160)
Commercial and industrial	(215)	(7)
Consumer	(56)	(95)
Total charge-offs	(405)	(262)
Recoveries		
Mortgage loans on real estate:		
Construction and development	10	13
1-4 Family	6	4
Commercial real estate	2	—
Commercial and industrial	5	2
Consumer	42	16
Total recoveries	65	35
Net charge-offs	(340)	(227)
Balance at end of period	$ 20,423	$ 14,233
Net charge-offs to:		
Loans - average	0.02%	0.01%
Allowance for loan losses	1.66%	1.59%
Allowance for loan losses to:		
Total loans	1.11%	0.82%
Nonperforming loans	137.33%	188.35%

The allowance for loan losses to total loans was 1.11% and 0.82% at March 31, 2021 and 2020, respectively. The allowance for loan losses to nonperforming loans decreased to 137.33% at March 31, 2021 compared to 188.35% at March 31, 2020. The increase in the allowance for loan losses to total loans at March 31, 2021 is primarily due to the large increase in the allowance for loan losses in response to the deterioration of economic conditions related to the COVID-19 pandemic compared to March 31, 2020. The decrease in the allowance for loan losses to nonperforming loans is due to the increase in nonperforming loans, which increased to $14.9 million at March 31, 2021 compared to $7.6 million at March 31, 2020.

Charge-offs reflect the realization of losses in the portfolio that were recognized previously through the provision for loan losses. Net charge-offs, which include recoveries of amounts previously charged off, for the three months ended March 31, 2021 and 2020 were $0.3 million and $0.2 million, respectively, equal to 0.02% and 0.01%, respectively, of the average loan balance for each period.

Management believes the allowance for loan losses at March 31, 2021 is sufficient to provide adequate protection against losses in our portfolio. Although the allowance for loan losses is considered adequate by management, there can be no assurance that this allowance will prove to be adequate over time to cover ultimate losses in connection with our loans. This allowance may prove to be inadequate due to the scope and duration of the COVID-19 pandemic and its continued influence on the economy, other unanticipated adverse changes in the economy, or discrete events adversely affecting specific customers or industries. Our results of operations and financial condition could be materially adversely affected to the extent that the allowance is insufficient to cover such changes or events.

Nonperforming Assets and Restructured Loans. Nonperforming assets consist of nonperforming loans and other real estate owned. Nonperforming loans are those on which the accrual of interest has stopped or loans which are contractually 90 days past due on which interest continues to accrue. Loans are ordinarily placed on nonaccrual when a loan is specifically determined to be impaired or when principal and interest is delinquent for 90 days or more. However, under the CARES Act and guidance from regulatory agencies, certain loans modified due to pandemic-related hardships are not accounted for as past due or nonaccrual. Additionally, management may elect to continue the accrual when the estimated net available value of collateral is sufficient to cover the principal balance and accrued interest. It is our policy to discontinue the accrual of interest income on any loan for which we have reasonable doubt as to the payment of interest or principal. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period of repayment performance by the borrower.

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

There were 33 loans classified as TDRs at March 31, 2021 that totaled $13.8 million, compared to 34 loans totaling $14.7 million at December 31, 2020. At March 31, 2021, twelve of the restructured loans were considered TDRs due to modification of terms through adjustments to maturity, nine restructured loans were considered TDRs due to principal payment forbearance paying interest only for a specified period of time, seven of the restructured loans were considered TDRs due to a reduction in the interest rate to a rate lower than the current market rate, four of the restructured loans were considered TDRs due to principal and interest forbearance, and one restructured loan was considered a TDR due to a reduction in principal payments on a modified payment schedule.

As of March 31, 2021, one $1.3 million commercial real estate TDR was in default of its modified terms and is included in nonaccrual loans. At December 31, 2020, none of the TDRs were in default of their modified terms and included in nonaccrual loans. The Company individually evaluates each TDR for allowance purposes, primarily based on collateral value, and excludes these loans from the loan population that is collectively evaluated for impairment.

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

	As of and for the three months ended March 31, 2021	As of and for the year ended December 31, 2020
Nonaccrual loans	$ 13,170	$ 13,506
Accruing loans past due 90 days or more	1,705	321
Total nonperforming loans	$ 14,875	$ 13,827
TDRs	6,610	8,017
Total nonperforming loans and restructured loans	$ 21,485	$ 21,844
Interest income recognized on nonperforming loans and restructured loans	$ 204	$ 757
Interest income foregone on nonperforming loans and restructured loans	$ 111	$ 455

Nonperforming loans are comprised of accruing loans past due 90 days or more and nonaccrual loans. Nonperforming loans outstanding represented 0.81% and 0.74% of total loans at March 31, 2021 and December 31, 2020, respectively.

Other Real Estate Owned. Other real estate owned consists of properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure. These properties are carried at the lower of cost or fair market value based on appraised value, less estimated selling costs. Losses arising at the time of foreclosure of properties are charged to the allowance for loan losses. No other real estate owned was sold during the three months ended March 31, 2021. Other real estate owned with a cost basis of $0.1 million was sold during the three months ended March 31, 2020, resulting in a gain of $26,000 for the period. At March 31, 2021, approximately $1.3 million of loans secured by real estate were in the process of foreclosure.

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

	March 31, 2021	December 31, 2020
1-4 Family	$ 883	$ 28
Commercial real estate	635	635
Total other real estate owned	$ 1,518	$ 663

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

	Three months ended March 31,	
	2021	2020
Balance, beginning of period	$ 663	$ 133
Additions	501	—
Transfers from acquired loans	354	48
Sales of other real estate owned	—	(105)
Balance, end of period	$ 1,518	$ 76

Interest Rate Risk

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

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

Net interest income simulation is the Bank's primary tool for benchmarking near term earnings exposure. Given the ALCO's objective to understand the potential risk/volatility embedded within the current mix of assets and liabilities, standard rate scenario simulations assume total assets remain static (i.e. no growth).

The Bank may also use a standard gap report in its interest rate risk management process. The primary use for the gap report is to provide supporting detailed information to the ALCO's discussion. The Bank has particular concerns with the utility of the gap report as a risk management tool because of difficulties in relating gap directly to changes in net interest income. Hence, the income simulation is the key indicator for earnings-at-risk since it expressly measures what the gap report attempts to estimate.

Short term interest rate risk management tactics are decided by the ALCO where risk exposures exist out into the 1 to 2- year horizon. Tactics are formulated and presented to the ALCO for discussion, modification, and/or approval. Such tactics may include asset and liability acquisitions of appropriate maturities in the cash market, loan and deposit product/pricing strategy modification, and derivatives hedging activities to the extent such activity is authorized by the Board of Directors.

Within the gap position that management directs, we attempt to structure our assets and liabilities to minimize the risk of either a rising or falling interest rate environment. We manage our gap position for time horizons of one month, two months, three months, 4-6 months, 7-12 months, 13-24 months, 25-36 months, 37-60 months and more than 60 months. The goal of our asset/liability management is for the Bank to maintain a net interest income at risk in an up or down 100 basis point environment at less than (5)%. At March 31, 2021, the Bank was within the policy guidelines for asset/liability management.

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

As of March 31, 2021	
Changes in Interest Rates (in basis points)	Estimated Increase/Decrease in Net Interest Income(1)
+300	7.8%
+200	5.4%
+100	3.2%
-100	(3.7)%

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

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

Liquidity and Capital Resources

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

Our core deposits, which are deposits excluding time deposits greater than $250,000 and deposits of municipalities and other political entities, are our most stable source of liquidity to meet our cash flow needs due to the nature of the long-term relationships generally established with our customers. Maintaining the ability to acquire these funds as needed in a variety of markets, and within ALCO compliance targets, is essential to ensuring our liquidity. At March 31, 2021 and December 31, 2020, 75% and 69% of our total assets, respectively, were funded by core deposits.

Our investment portfolio is another alternative for meeting our cash flow requirements. Investment securities generate cash flow through principal payments and maturities, and generally have readily available markets that allow for their conversion to cash. Some securities are pledged to secure certain deposit types or short-term borrowings, such as FHLB advances, which impacts their liquidity. At March 31, 2021, securities with a carrying value of $101.0 million were pledged to secure certain deposits, borrowings, and other liabilities, compared to $84.6 million in pledged securities at December 31, 2020.

Other sources available for meeting liquidity needs include advances from the FHLB, repurchase agreements and other borrowings. FHLB advances are primarily used to match-fund fixed rate loans in order to minimize interest rate risk and also may be used to meet day to day liquidity needs, particularly if the prevailing interest rate on an FHLB advance compares favorably to the rates that we would be required to pay to attract deposits. At March 31, 2021, the balance of our outstanding advances with the FHLB was $82.5 million, a decrease from $120.5 million at December 31, 2020. The total amount of the remaining credit available to us from the FHLB at March 31, 2021 was $718.8 million.

Repurchase agreements are contracts for the sale of securities which we own with a corresponding agreement to repurchase those securities at an agreed upon price and date. Our policies limit the use of repurchase agreements to those collateralized by investment securities. We had $4.3 million of repurchase agreements outstanding at March 31, 2021 compared to $5.7 million of repurchase agreements outstanding at December 31, 2020.

We maintain unsecured lines of credit with other commercial banks totaling $60.0 million. The lines of credit mature at various times within the next year. We had no outstanding balances on our unsecured lines of credit at March 31, 2021 and December 31, 2020.

In addition, at both March 31, 2021 and December 31, 2020, we had $43.6 million in aggregate principal amount of subordinated debt outstanding. For additional information, see our Annual Report on Form 10-K for the year ended December 31, 2020, Part II Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Discussion and Analysis of Financial Condition - Borrowings - 2029 Notes and 2027 Notes" and Note 11 to the financial statements included in such report.

Our liquidity strategy is focused on using the least costly funds available to us in the context of our balance sheet composition and interest rate risk position. Accordingly, we target growth of noninterest-bearing deposits. Although we cannot directly control the types of deposit instruments our customers choose, we can influence those choices with the interest rates and deposit specials we offer. At March 31, 2021 and December 31, 2020, we held $80.0 million in brokered deposits, as defined for federal regulatory purposes, which the Bank uses periodically to satisfy the required borrowings under its interest rate swap agreements, due to more favorable pricing. We also hold QwickRate® deposits, included in our time deposit balances, which we obtain through a qualified network to address liquidity needs when rates on such deposits compare favorably with deposit rates in our markets. At March 31, 2021, we held $103.8 million of QwickRate® deposits, a decrease compared to $123.1 million at December 31, 2020.

The following table presents, by type, our funding sources, which consist of total average deposits and borrowed funds, as a percentage of total funds and the total cost of each funding source for the three month periods ended March 31, 2021 and 2020.

	Percentage of Total		Cost of Funds	
	Three months ended March 31,		Three months ended March 31,	
	2021	2020	2021	2020
Noninterest-bearing demand deposits	22%	18%	—%	—%
Interest-bearing demand deposits	35	29	0.38	0.87
Brokered deposits	4	—	1.01	—
Savings accounts	7	6	0.19	0.44
Time deposits	25	37	1.05	2.13
Short-term borrowings	1	3	0.18	1.33
Long-term borrowed funds	6	7	3.70	3.28
Total deposits and borrowed funds	100%	100%	0.65%	1.32%

Capital management. Our primary sources of capital include retained earnings, capital obtained through acquisitions, and proceeds from the sale of our capital stock and subordinated debt. We may issue additional common stock and debt securities from time to time to fund acquisitions and support our organic growth.

During the three months ended March 31, 2021, the Company paid $0.7 million in dividends, compared to $0.6 million during the three months ended March 31, 2020. The Company declared dividends on its common stock of $0.07 and $0.06 per share during the three months ended March 31, 2021 and 2020, respectively. Our board of directors has authorized a share repurchase program and, at March 31, 2021, the Company had 338,880 shares of its common stock remaining authorized for repurchase under the program. During the three months ended March 31, 2021, the Company paid $6.7 million to repurchase 225,950 shares of its common stock, compared to paying $6.6 million to repurchase 326,636 shares of its common stock during the three months ended March 31, 2020.

We are subject to various regulatory capital requirements administered by the Federal Reserve and the OCC which specify capital tiers, including the following classifications.

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

(1) In order to be well capitalized or adequately capitalized, a bank must satisfy each of the required ratios in the table. In order to be undercapitalized or significantly undercapitalized, a bank would need to fall below just one of the relevant ratio thresholds in the table.

The Company and the Bank each were in compliance with all regulatory capital requirements at March 31, 2021 and December 31, 2020. The Bank also was considered “well-capitalized” under the OCC’s prompt corrective action regulations as of these dates.

The following table presents the actual capital amounts and regulatory capital ratios for the Company and the Bank as of the dates presented (dollars in thousands).

	Actual		Minimum Capital Requirement to be Well Capitalized	
	Amount	Ratio	Amount	Ratio
March 31, 2021				
Investar Holding Corporation:				
Tier 1 leverage capital	$ 216,757	9.37%	$ —	—%
Common equity tier 1 capital	210,257	11.08	—	—
Tier 1 capital	216,757	11.42	—	—
Total capital	280,380	14.77	—	—
Investar Bank:				
Tier 1 leverage capital	243,912	10.56	115,534	5.00
Common equity tier 1 capital	243,912	12.86	123,297	6.50
Tier 1 capital	243,912	12.86	151,750	8.00
Total capital	264,616	13.95	189,688	10.00
December 31, 2020				
Investar Holding Corporation:				
Tier 1 leverage capital	$ 215,750	9.49%	$ —	—%
Common equity tier 1 capital	209,250	11.02	—	—
Tier 1 capital	215,750	11.36	—	—
Total capital	279,253	14.71	—	—
Investar Bank:				
Tier 1 leverage capital	237,684	10.47	113,546	5.00
Common equity tier 1 capital	237,684	12.53	123,268	6.50
Tier 1 capital	237,684	12.53	151,714	8.00
Total capital	258,291	13.62	189,642	10.00

Off-Balance Sheet Transactions

Swap contracts. The Bank enters into interest rate swap contracts, some of which are forward starting, to manage exposure against the variability in the expected future cash flows (future interest payments) attributable to changes in the 1-month LIBOR associated with the forecasted issuances of 1-month fixed rate debt arising from a rollover strategy. An interest rate swap is an agreement whereby one party agrees to pay a fixed rate of interest on a notional principal amount in exchange for receiving a floating rate of interest on the same notional amount for a predetermined period of time, from a second party. The maximum length of time over which the Bank is currently hedging its exposure to the variability in future cash flows for forecasted transactions is approximately 9.4 years. At March 31, 2021 and December 31, 2020, the Company had interest rate swap contracts with a total notional amount of $80.0 million and forward starting interest rate swap agreements with a total notional amount of $140.0 million.

The Company also enters into interest rate swap contracts that allow commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to an interest rate swap agreement, which serves to effectively swap the customer's variable-rate loan into a fixed-rate loan. The Company then enters into a corresponding swap agreement with a third party in order to economically hedge its exposure through the customer agreement. The interest rate swaps with both the customers and third parties are not designated as hedges under FASB ASC Topic 815, *Derivatives and Hedging*, and are marked to market through earnings. As the interest rate swaps are structured to offset each other, changes to the underlying benchmark interest rates considered in the valuation of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit quality variations between counterparties, which may impact earnings as required by FASB ASC Topic 820, *Fair Value Measurements*. The Company did not recognize any gains or losses in other income resulting from fair value adjustments during the three months ended March 31, 2021 and 2020.

Unfunded commitments. The Bank enters into loan commitments and standby letters of credit in the normal course of its business. Loan commitments are made to meet the financing needs of our customers, while standby letters of credit commit the Bank to make payments on behalf of customers when certain specified future events occur. The credit risks associated with loan commitments and standby letters of credit are essentially the same as those involved in making loans to our customers. Accordingly, our normal credit policies apply to these arrangements. Collateral (e.g., securities, receivables, inventory, equipment, etc.) is obtained based on management's credit assessment of the customer. Loan commitments are also evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded loan commitments is included in other liabilities in the consolidated balance sheets and was $0.3 million and $0.2 million at March 31, 2021 and December 31, 2020, respectively.

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

	March 31, 2021	December 31, 2020
Commitments to extend credit:		
Loan commitments	$ 290,043	$ 266,039
Standby letters of credit	14,412	14,420

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

Additionally, at March 31, 2021, the Company had unfunded commitments of $1.0 million for its investment in Small Business Investment Company qualified funds.

For the three months ended March 31, 2021 and for the year ended December 31, 2020, except as disclosed herein and in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, we engaged in no off-balance sheet transactions that we believe are reasonably likely to have a material effect on our financial condition, results of operations, or cash flows.

Contractual Obligations

The following table presents, at March 31, 2021, contractual obligations to third parties by payment date (dollars in thousands).

	Payments Due In:				
	Less than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without a stated maturity(1)	$ 1,514,505	$ —	$ —	$ —	$ 1,514,505
Time deposits(1)(2)	363,945	120,306	11,124	—	495,375
Securities sold under agreements to repurchase(1)	4,274	—	—	—	4,274
Federal Home Loan Bank advances(1)	4,000	—	23,500	55,000	82,500
Subordinated debt(1)	—	—	—	43,600	43,600
Junior subordinated debt(1)(2)	—	—	—	6,702	6,702
Operating lease commitment	594	1,173	948	1,607	4,322
Total contractual obligations	$ 1,887,318	$ 121,479	$ 35,572	$ 106,909	$ 2,151,278

(1) Excludes interest.
(2) Excludes unamortized premiums and discounts.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosures about market risk as of December 31, 2020 are set forth in the Company's Annual Report on Form 10-K filed with the SEC on March 10, 2021 in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management." Please refer to the information in Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Risk Management" in this report for additional information about the Company's market risk for the three months ended March 31, 2021; except as discussed therein, there have been no material changes in the Company's market risk since December 31, 2020.

Item 4. Controls and Procedures

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

There were no changes in the Company's internal control over financial reporting during the fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. We have not experienced any significant impact to our internal controls over financial reporting despite the fact that many of our employees were working remotely for a period of time due to the COVID-19 pandemic. The design of our processes and controls allow for remote execution with accessibility to secure data. We are continually monitoring and assessing the potential effects of the COVID-19 pandemic with the goal of minimizing the impact, if any, on the design and operating effectiveness of our internal controls.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

For information regarding risk factors that could affect Investar Holding Corporation's (the "Company") results of operations, financial condition and liquidity, see the risk factors disclosed in the Annual Report on Form 10-K for the year ended December 31, 2020 filed by the Company with the Securities and Exchange Commission ("SEC") on March 10, 2021. There have been no significant changes in our risk factors as described in such Annual Report.

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

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

The table below provides information with respect to purchases made by the Company of shares of its common stock during each of the months during the three month period ended March 31, 2021.

Period	(a) Total Number of Shares (or Units) Purchased[1]		(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs[2]	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Be Purchased Under the Plans or Programs[2]
January 1, 2021 - January 31, 2021	12,017	$	16.41	11,800	253,030
February 1, 2021 - February 28, 2021	173,952		16.79	173,895	79,135
March 1, 2021 - March 31, 2021	58,580		20.89	40,255	338,880
	244,549	$	17.75	225,950	338,880

(1) Includes 18,599 shares surrendered to cover the payroll taxes due upon the vesting of restricted stock.

(2) On March 17, 2021, the Company announced that its board of directors authorized the repurchase of an additional 300,000 shares of the Company's common stock under its stock repurchase plan, in addition to the 264,830 shares that were remaining as authorized for repurchase at December 31, 2020.

Since we are a holding company with no material business activities, our ability to pay dividends is substantially dependent upon the ability of the Bank to transfer funds to us in the form of dividends, loans and advances. The Bank's ability to pay dividends and make other distributions and payments to us depends upon the Bank's earnings, financial condition, general economic conditions, compliance with regulatory requirements and other factors. In addition, the Bank's ability to pay dividends to us is itself subject to various legal, regulatory and other restrictions under federal banking laws that are described in Part I Item 1 "Business", of our Annual Report on Form 10-K for the year ended December 31, 2020.

In addition, as a Louisiana corporation, we are subject to certain restrictions on dividends under the Louisiana Business Corporation Act. Generally, a Louisiana corporation may pay dividends to its shareholders unless, after giving effect to the dividend, either (1) the corporation would not be able to pay its debts as they come due in the usual course of business or (2) the corporation's total assets are less than the sum of its total liabilities and the amount that would be needed, if the corporation were to be dissolved at the time of the payment of the dividend, to satisfy the preferential rights of shareholders whose preferential rights are superior to those receiving the dividend. In addition, our existing and future debt agreements limit, or may limit, our ability to pay dividends. Under the terms of our 5.125% Fixed-to-Floating Rate Subordinated Notes due 2029, we may not pay a dividend if either we or the Bank, both immediately prior to the declaration of the dividend and after giving effect to the payment of the dividend, would not maintain regulatory capital ratios that are at "well capitalized" levels for regulatory capital purposes. We are also prohibited from paying dividends upon and during the continuance of any Event of Default under such notes. Finally, our ability to pay dividends may be limited on account of the junior subordinated debentures that we assumed through acquisitions. We must make payments on the junior subordinated debentures before any dividends can be paid on our common stock.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Reorganization, dated January 21, 2021 by and among Investar Holding Corporation, Cheaha Financial Group, Inc. and High Point Acquisition, Inc.(1)
3.1	Restated Articles of Incorporation of Investar Holding Corporation(2)
3.2	Amended and Restated By-laws of Investar Holding Corporation(3)
4.1	Specimen Common Stock Certificate(4)
4.2	Indenture, dated March 24, 2017, by and between Investar Holding Corporation and Wilmington Trust, National Association, as Trustee(5)
4.3	Supplemental Indenture, dated March 24, 2017, by and between Investar Holding Corporation and Wilmington Trust, National Association, as Trustee(6)
4.4	Form of 5.125% Fixed to Fluctuation Rate Subordinated Note due 2029(7)
4.5	Form of Registration Rights Agreement, dated December 20, 2019, by and between Investar Holding Corporation and the purchasers set forth therein(8)
31.1	Certification of the Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Principal Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Principal Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

(1) Filed as exhibit 2.1 to the Current Report on Form 8-K of the Company filed with the SEC on January 25, 2021 and incorporated herein by reference.
(2) Filed as exhibit 3.1 to the Registration Statement on Form S-1 of the Company filed with the SEC on May 16, 2014 and incorporated herein by reference.
(3) Filed as exhibit 3.2 to the Registration Statement on Form S-4 of the Company filed with the SEC on October 10, 2017 and incorporated herein by reference.
(4) Filed as exhibit 4.1 to the Registration Statement on Form S-1 of the Company filed with the SEC on May 16, 2014 and incorporated herein by reference.
(5) Filed as exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on March 24, 2017 and incorporated herein by reference.
(6) Filed as exhibit 4.2 to the Current Report on Form 8-K filed with the SEC on March 24, 2017 and incorporated herein by reference.
(7) Filed as exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on November 14, 2019 and incorporated herein by reference.

(8) Filed as exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on December 24, 2019 and incorporated herein by reference.

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

SIGNATURES

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

INVESTAR HOLDING CORPORATION

Date: May 6, 2021	/s/ John J. D’Angelo John J. D’Angelo President and Chief Executive Officer (Principal Executive Officer)
Date: May 6, 2021	/s/ Christopher L. Hufft Christopher L. Hufft Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

CERTIFICATIONS

I, John J. D'Angelo, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2021 of Investar Holding Corporation;

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

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

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

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

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

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

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

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

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

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

Date: May 6, 2021

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

Exhibit 31.2

CERTIFICATIONS

I, Christopher L. Hufft, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2021 of Investar Holding Corporation;

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

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

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

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

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

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

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

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

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

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

Date: May 6, 2021

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

Exhibit 32.1

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

In connection with the quarterly report on Form 10-Q of Investar Holding Corporation (the "Company") for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John J. D'Angelo, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: May 6, 2021

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

Exhibit 32.2

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

In connection with the quarterly report on Form 10-Q of Investar Holding Corporation (the “Company”) for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christopher L. Hufft, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: May 6, 2021

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