

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

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**FORM 10-K**

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(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2020

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  
(State or other jurisdiction of  
incorporation or organization)

27-1560715  
(I.R.S. Employer  
Identification No.)

10500 Coursey Blvd., 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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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, 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price of the common stock as of June 30, 2020, was approximately \$146.0 million.

The number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date, is as follows: Common stock, \$1.00 par value per share, 10,475,083 shares outstanding as of March 8, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement relating to the 2021 Annual Meeting of Shareholders of Investar Holding Corporation are incorporated by reference into Part III of the Form 10-K. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2020.

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## PART I

### Item 1. Business

#### General

Investar Holding Corporation (the “Company”), a Louisiana corporation incorporated in 2009, is a financial holding company headquartered in Baton Rouge, Louisiana that conducts its operations primarily through its wholly-owned subsidiary, Investar Bank, National Association (the “Bank”), a national bank chartered by the Office of the Comptroller of Currency (“OCC”). The Bank was originally chartered as a Louisiana commercial bank in 2006 and converted to a national bank in July 2019. Through the Bank, the Company offers a wide range of commercial banking products tailored to meet the needs of individuals and small to medium-sized businesses. Our primary areas of operation are south Louisiana, including Baton Rouge, New Orleans, Lafayette, Lake Charles, and their surrounding areas; southeast Texas, including Houston and its surrounding area and, as of February 21, 2020, Alice and Victoria; and west Alabama, including York and its surrounding area. These markets are served from our executive and operations center located in Baton Rouge and from 31 full service branches located throughout our market areas. We have experienced significant growth since the Bank was chartered, completing six whole-bank acquisitions, as described below in more detail, and establishing additional branches in our market areas. On January 25, 2021, we announced a definitive agreement to acquire Cheaha Financial Group, Inc., with four branches in Calhoun County in northeast Alabama.

As of December 31, 2020, on a consolidated basis, the Company had total assets of \$2.3 billion, net loans of \$1.8 billion, total deposits of \$1.9 billion, and stockholders’ equity of \$243.3 million.

Management believes that the current markets present a significant opportunity for growth and franchise expansion, both organically and through strategic acquisitions. Although the financial services industry is rapidly changing and intensely competitive, and likely to remain so, we believe that the Bank competes effectively as a local community bank and possesses the consistency of local leadership, the availability of local access and responsive customer service, coupled with competitively-priced products and services, necessary to successfully compete with other financial institutions for individual and small to medium-sized business customers.

For a discussion of the impacts of the COVID-19 pandemic on the Company, see *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments Related to COVID-19*.

The information set forth in this Annual Report on Form 10-K is as of March 10, 2021, unless otherwise indicated herein.

#### Operations

**General.** We offer a full range of commercial and retail lending products throughout our market areas, including business loans to small to medium-sized businesses as well as loans to individuals. Our business lending products include owner-occupied commercial real estate loans, construction loans and commercial and industrial loans, such as term loans, equipment financing and lines of credit, while our loans to individuals include first and second mortgage loans, installment loans, and lines of credit. For business customers, we target small to medium-sized businesses and professional organizations such as law firms, accounting firms and medical practices.

Management considers all of our operations to be aggregated in one reportable operating segment, and accordingly, no separate segment disclosures are presented in this report.

**Lending Activities.** Income generated by our lending activities represents a substantial portion of our total revenue. For the years ended December 31, 2020, 2019 and 2018, income from our lending activities comprised 83%, 85% and 84%, respectively, of our total revenue. Over the last three fiscal years, we have increased our focus on commercial real estate loans and commercial and industrial loans, including adding and expanding a new Commercial and Industrial division in early 2018.

*Lending to Businesses.* Our lending to small to medium-sized businesses falls into three general categories:

- *Commercial real estate loans.* Approximately 48% of our total loans at December 31, 2020 were commercial real estate loans, which include multifamily, farmland and commercial real estate loans, with owner-occupied loans comprising approximately 42% of the commercial real estate loan portfolio. Commercial real estate loan terms generally are 10 years or less, although payments may be structured on a longer amortization basis. Interest rates may be fixed or adjustable, although rates typically will not be fixed for a period exceeding 120 months, and we generally charge an origination fee. We do not offer non-recourse loans. Risks associated with commercial real estate loans include, among other things, fluctuations in the value of real estate, new job creation trends, tenant vacancy rates, and the quality of the borrower's management. We attempt to limit risk by analyzing a borrower's cash flow and collateral value on an ongoing basis. Also, we typically require 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. We also manage risk by avoiding concentrations in any one business or industry.
- *Commercial and industrial loans.* Commercial and industrial loans primarily consist of working capital lines of credit and equipment loans. The terms of these loans vary by purpose and by type of underlying collateral. We make equipment loans for a term of five years or less at fixed or variable rates, with the loan fully amortized over the term and secured by the relevant piece of equipment. Loans to support working capital typically have terms not exceeding one year, and such loans are secured by accounts receivable or inventory. Fixed rate loans are priced based on collateral, term and amortization. The interest rate for floating rate loans is typically tied to the prime rate published in The Wall Street Journal. Commercial and industrial loans accounted for approximately 21% of our total loans at December 31, 2020.

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. We actively monitor certain financial measures of the borrower, including advance rate, cash flow, collateral value and other appropriate credit factors.

- *Construction and development loans.* Construction and development loans, which consist of loans for the construction of commercial projects, single family residential properties and multifamily properties, accounted for approximately 11% of our total loans at December 31, 2020. Our construction and development loans are made on both a "pre-sold" basis and on a "speculative" basis. Construction and development loans are generally made with a term of 6 to 18 months, with interest accruing at either a fixed or floating rate and paid monthly. These loans are secured by the underlying project being built. For construction loans, loan to value ratios range from 70% to 80% of the developed/completed value, while for development loans our loan to value ratios typically will not exceed 70% to 75% of such value. Speculative loans are based on the borrower's financial strength and cash flow position, and we disburse funds in installments based on the percentage of completion and only after the project has been inspected by an experienced construction lender or third-party inspector.

Construction lending entails significant additional risks compared to commercial real estate or residential real estate lending 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 accurately evaluate the total loan funds required to complete a project and to calculate related loan-to-value ratios. We attempt to minimize the risks associated with construction lending by limiting loan-to-value ratios as described above. In addition, as to speculative development loans, we generally make such loans only to borrowers that have a positive pre-existing relationship with us. We also manage risk by using specific underwriting policies and procedures for these types of loans and by avoiding excessive concentrations in any one business or industry.

*Lending to Individuals.* We make the following types of loans to our individual customers:

- *Residential real estate.* One-to-four family residential real estate loans, including second mortgage loans, comprised approximately 18% of our total loans at December 31, 2020. Second mortgage loans in this category include only loans we make to cover the gap between the purchase price of a residence and the amount of the first mortgage; all other second mortgage loans are considered consumer loans. Loan to value ratios do not typically exceed 80%, although some of the mortgage loans that we retain in our portfolio may have higher loan to value ratios. We use an independent appraiser to establish collateral values. We generate residential real estate mortgage loans through Bank referrals and contacts with real estate agents in our markets. We do not originate subprime residential real estate loans.
- *Consumer loans.* Consumer loans represented 1% of our total loans at December 31, 2020. We make these loans (which are normally fixed-rate loans) to individuals for a variety of personal, family and household purposes, secured and unsecured installment and term loans, second mortgages, home equity loans and home equity lines of credit. Because many consumer loans are secured by depreciable assets such as cars, boats and trailers, the loans are amortized over the useful life of the asset. The amortization of second mortgages generally does not exceed 15 years and the rates generally are not fixed for more than 60 months. As a general matter, in underwriting these loans, our credit analysts review a borrower's past credit history, credit scores, past income level, debt history and, when applicable, cash flow, debt to income ratio, and payment to income, and determine the impact of all these factors on the ability of the borrower to make future payments as agreed. A comparison of the value of the collateral, if any, to the proposed loan amount, is also a consideration in the underwriting process. 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 us for these types of loans.

Indirect auto loans historically comprised the largest component of our consumer loans, however, only 22% of our total consumer loans were indirect auto loans at December 31, 2020. We were an indirect lender for our auto loans, meaning that the loans were originated by automobile dealerships and then assigned to us. These dealerships were selected based on our review of their operating history and the dealership's reputation in the marketplace, which we believe helped to mitigate the risks of fraud or negligence by the dealership. At all times, the decision whether or not to provide financing resided with us.

In November 2015, the Bank announced that it was exiting the indirect auto loan origination business. The Bank discontinued accepting indirect auto loan applications December 31, 2015, but continued to process and fund applications that were accepted on or before that date. The Bank will continue to service the current indirect auto loan portfolio for its duration. At December 31, 2020, the weighted average remaining term of the indirect auto loan portfolio was 1.3 years.

***Deposits.*** We offer a broad base of deposit products and services to our individual and business clients, including savings, checking, and money market accounts, debit cards and mobile banking with smartphone deposit capability, as well as a variety of certificates of deposit and individual retirement accounts. We also offer a reciprocal deposit product, Assured Checking, that allows customers to deposit funds in excess of the Federal Deposit Insurance Corporation's ("FDIC") \$250,000 insurance limit and have the funds insured by the FDIC. For our business clients, we offer a competitive suite of cash management products which include, but are not limited to, remote deposit capture, virtual vault, electronic statements, positive pay, ACH origination and wire transfer, investment sweep accounts, and enhanced business internet banking.

***Other Banking Services.*** The Bank's other banking services include cashiers' checks, direct deposit of payroll and Social Security checks, night depository, bank-by-mail, automated teller machines with deposit automation, debit cards, mobile wallet payment options, Business Electronic Banking for business customers, and Zelle®, a fast, safe and easy way to send money directly between almost any bank account in the United States. In addition, the bank has options for contactless banking including interactive teller machines (ITMs) and video banking. ITMs are an upgrade on traditional ATM technology that allow customers to virtually interact directly with Bank staff for a safer, more secure transaction. Video banking lets customers communicate with Bank staff from a mobile device or computer without visiting a branch.

We have also associated with nationwide networks of automated teller machines, enabling the Bank's customers to use ATMs throughout our markets and other regions. We offer merchant card services through a third-party vendor and a business credit card product. The Bank does not offer trust services or insurance products.

## Acquisition Activity

**General.** To complement our organic growth strategy, from time to time, we evaluate potential acquisition opportunities including whole-bank acquisitions and strategic branch acquisitions. We believe there are many banking institutions that continue to face credit challenges, capital constraints and liquidity issues and that lack the scale and management expertise to manage the increasing regulatory burden. Our management team has a long history of identifying targets, assessing and pricing risk and executing acquisitions in a creative, yet disciplined, manner. We seek acquisitions that provide meaningful financial benefits, long-term organic growth opportunities and expense reductions, without compromising our risk profile. Additionally, we seek banking markets with favorable competitive dynamics and potential consolidation opportunities. All of our acquisition activity is evaluated and overseen by a standing Merger and Acquisition Committee of our board of directors. Acquisitions completed since January 1, 2018 and any pending acquisitions are discussed below.

**Acquisition of Mainland Bank.** On March 1, 2019, the Company completed its acquisition of Mainland Bank (“Mainland”), headquartered in Texas City, Texas, with two additional branch locations in Houston and Dickinson, Texas. The Company acquired all of the outstanding common stock of the former Mainland shareholders for a total consideration of \$18.6 million in the form of 763,849 shares of the Company’s common stock. The Company acquired assets with a fair value of approximately \$127.6 million, including \$81.3 million in loans, assumed \$107.6 million in deposits, and recognized \$5.2 million in goodwill.

**Acquisition of Bank of York.** On November 1, 2019, the Company completed its acquisition of Bank of York, headquartered in York, Alabama, with an additional branch location in Livingston, Alabama. The Company acquired all of the outstanding common stock of the former Bank of York shareholders for a total cash consideration of \$15.0 million. Bank of York was also permitted under the terms of the merger agreement to make a special pre-closing cash distribution to its shareholders in an aggregate amount of approximately \$1.0 million. The Company acquired assets with a fair value of approximately \$101.9 million, including \$46.1 million in loans, assumed \$85.0 million in deposits, and recognized \$5.0 million in goodwill.

**Acquisition of two branches from PlainsCapital Bank.** On February 21, 2020, the Bank completed its 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., for an aggregate consideration of approximately \$11.2 million. The Bank acquired approximately \$45.9 million in loans and \$37.3 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.

**Definitive Agreement with Cheaha Financial Group, Inc.** On January 25, 2021 the Company announced that it has entered into a definitive agreement (the “Agreement”) to acquire Cheaha Financial Group, Inc. (“Cheaha”), headquartered in Oxford, Alabama, and its wholly-owned subsidiary, Cheaha Bank. According to the terms of the Agreement, the Company will pay \$80.00 in cash consideration for each share of Cheaha common stock, for an aggregate value of approximately \$41.1 million. Investar previously executed a definitive agreement to acquire Cheaha in December 2019. However, that agreement was terminated in accordance with its terms after the transaction failed to close by June 30, 2020. The termination of the agreement came in response to the unpredictable economic conditions resulting from the global health crisis caused by the COVID-19 pandemic. At December 31, 2020, Cheaha Bank had approximately \$236 million in assets, \$126 million in net loans, and \$202 million in deposits. Cheaha Bank offers a full range of banking products and services to individuals and small businesses from four branch locations in Calhoun County, Alabama.

## De Novo Branches

During our last three fiscal years, we have opened five full-service branch locations in Louisiana, consisting of two locations in the Lake Charles market, one location in the Baton Rouge market, one location in the New Orleans market, and one location in the Lafayette market, in addition to the branches we acquired through our acquisition activity described above. We do not expect to open de novo branches in 2021.

## Competition

We face competition in all major product and geographic areas in which we conduct our operations. Through the Bank, we compete for available loans and deposits with state, regional and national banks, as well as savings and loan associations, credit unions, finance companies, mortgage companies, insurance companies, brokerage firms and investment companies. All of these institutions compete in the delivery of services and products through availability, quality and pricing, both with respect to interest rates on loans and deposits and fees charged for banking services. Many of our competitors are larger and have substantially greater resources than we do, including higher total assets and capitalization, greater access to capital markets, and a broader offering of financial services. As larger institutions, many of our competitors can offer more attractive pricing than we can offer and have more extensive branch networks from which they can offer their financial services products.

While we continually strive to offer competitive pricing for our banking products, we believe that our community bank approach to customers, focusing on quality customer service, and maintaining strong customer relationships affords us the best opportunity to successfully compete with other institutions. In addition, as a smaller institution, we think we can be flexible in developing and implementing new products and services. Further, in recent years there has been consolidation activity involving banks with a presence in our markets. In our view, mergers and other business combinations within our markets provide us with growth opportunities. Many acquisitions, especially when local institutions are acquired by institutions based outside our markets, result not only in customer disruption, but also in a loss of market knowledge and relationships that we believe provide us the opportunity to acquire customers seeking a personalized approach to banking. Furthermore, acquisition activity typically creates opportunities to hire talented personnel from the combining institutions.

The following table sets forth certain information about our total deposits, and our share of total deposits, in specified locations, and is shown as of June 30, 2020, which is the latest date for which such information is available.

Location	Investar Total Deposits <i>(in millions)</i>	Investar Share of Deposits
Baton Rouge, Louisiana	\$ 800	3.7 %
New Orleans, Louisiana	256	1.2
Lafayette, Louisiana	171	2.5
Evangeline Parish, Louisiana <sup>(1)</sup>	200	2.3
East and West Feliciana Parishes, Louisiana <sup>(1)</sup>	58	22.5
Calcasieu Parish, Louisiana <sup>(1)</sup>	19	0.4
Houston, Texas	143	0.1
Alice, Texas	14	2.2
Victoria, Texas	24	0.9
Sumter County, Alabama <sup>(1)</sup>	108	43.9

<sup>(1)</sup> Evangeline Parish, Calcasieu Parish, East and West Feliciana Parishes, and Sumter County are not included in Metropolitan Statistical Areas but are included in this table to reflect the deposit balances of our branches in these parishes and county.

## Supervision and Regulation

**General.** Banking is highly regulated under federal and state law. The following is a brief summary of certain aspects of that regulation which are material to us, and does not purport to be a complete description of all regulations that affect us or all aspects of those regulations. To the extent particular statutory and regulatory provisions are described, the description is qualified in its entirety by reference to the particular statute or regulation.

We are a financial holding company registered under the Bank Holding Company Act of 1956, as amended, and are subject to supervision, regulation and examination by the Federal Reserve. The Bank is a national bank chartered under the laws of the United States by the OCC and is subject to supervision, regulation and examination by the OCC. This system of supervision and regulation establishes a comprehensive framework for our operations and, consequently, can have a material impact on our growth and earnings performance.

The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. This system is intended primarily for the protection of the FDIC's deposit insurance funds, bank depositors, and the public, rather than our shareholders and creditors. The banking agencies have broad enforcement power over bank holding companies and banks, including the authority, among other things, to enjoin "unsafe or unsound" practices, require affirmative action to correct any violation or practice, issue administrative orders that can be judicially enforced, direct increases in capital, direct the sale of subsidiaries or other assets, limit dividends and distributions, restrict growth, assess civil monetary penalties, remove officers and directors, and, with respect to banks, terminate deposit insurance or place the bank into conservatorship or receivership. In general, these enforcement actions may be initiated for violations of laws and regulations or unsafe or unsound practices.

**The Dodd-Frank Act.** The Dodd-Frank Act, enacted on July 21, 2010, aims to restore responsibility and accountability to the financial system by significantly altering the regulation of financial institutions and the financial services industry. Full implementation of the Dodd-Frank Act has required many new rules to be issued by federal regulatory agencies over the last several years, and will continue to profoundly affect how financial institutions will be regulated in the future.



The Dodd-Frank Act, among other things:

- established the Consumer Financial Protection Bureau, an independent bureau within the Federal Reserve System with centralized responsibility for promulgating and enforcing federal consumer protection laws applicable to all entities offering consumer financial products or services;
- established the Financial Stability Oversight Council, tasked with the authority to identify and monitor institutions and systems that pose a systemic risk to the financial system;
- changed the assessment base for federal deposit insurance from the amount of insured deposits held by the depository institution to the institution's average total consolidated assets less tangible equity;
- increased the minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35%;
- permanently increased the deposit insurance coverage amount from \$100,000 to \$250,000;
- required the federal banking agencies to make their capital requirements for insured depository institutions countercyclical, so that capital requirements increase in times of economic expansion and decrease in times of economic contraction;
- directed the Federal Reserve to establish interchange fees for debit cards under a restrictive "reasonable and proportional cost" per transaction standard;
- limited the ability of banking organizations to sponsor or invest in private equity and hedge funds and to engage in proprietary trading;
- increased regulation of consumer protections regarding mortgage originations, including originator compensation, minimum repayment standards, prepayment consideration, and mortgage servicing;
- restricted the preemption of select state laws by federal banking law applicable to national banks and disallowed subsidiaries and affiliates of national banks from availing themselves of such preemption;
- authorized national and state banks to establish de novo branches in any state that would permit a bank chartered in that state to open a branch at that location; and
- repealed the federal prohibition on the payment of interest on commercial demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Some of these provisions have had and may continue to have the consequence of increasing our expenses, decreasing our revenues, and changing the activities in which we choose to engage. The environment in which banking organizations have operated after the financial crisis, including legislative and regulatory changes affecting capital, liquidity, supervision, permissible activities, corporate governance and compensation, changes in fiscal policy and steps to eliminate government support for banking organizations, may have long-term effects on the business model and profitability of banking organizations that cannot currently be foreseen. The specific impact on our current activities or new financial activities we may consider in the future, our financial performance and the markets in which we operate will depend on the manner in which the relevant agencies develop and implement the required rules and the reaction of market participants to these regulatory developments. Many aspects of the Dodd-Frank Act are subject to ongoing implementation. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our financial condition and results of operations.

***The Volcker Rule.*** On December 10, 2013, the Federal Reserve and the other federal banking regulators as well as the SEC each adopted a final rule implementing Section 619 of the Dodd-Frank Act, commonly referred to as the "Volcker Rule." Generally speaking, the final rule prohibits a bank and its affiliates from engaging in proprietary trading and from sponsoring certain "covered funds" or from acquiring or retaining any ownership interest in such covered funds. Most private equity, venture capital and hedge funds are considered "covered funds" as are bank trust preferred collateralized debt obligations. The final rule requires banking entities to divest disallowed securities by July 21, 2015, subject to extension upon application. The Economic Growth, Regulatory Relief, and Consumer Protection Act which was enacted in 2018 amended Section 619 of the Dodd-Frank Act to exempt from the Volcker Rule any insured depository institution that has \$10.0 billion or less in total consolidated assets and whose total trading assets and trading liabilities are 5.0% or less of total consolidated assets.

## Regulatory Capital Requirements

**Capital Adequacy.** The Federal Reserve Board monitors the capital adequacy of the Company, on a consolidated basis, and the OCC monitors the capital adequacy of the Bank. The regulatory agencies use a combination of risk-based guidelines and a leverage ratio to evaluate capital adequacy and consider these capital levels when taking action on various types of applications and when conducting supervisory activities related to safety and soundness. The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among financial institutions and their holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. A financial institution's assets and off-balance sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. Regulatory capital, in turn, is classified in one of two tiers. "Tier 1" capital includes two components: (1) common equity Tier 1 capital and (2) additional Tier 1 capital. Common equity Tier 1 capital consists solely of common stock (plus related surplus), retained earnings and limited amounts of minority interests that are in the form of common stock. Additional Tier 1 capital includes other perpetual instruments historically included in Tier 1 capital, such as non-cumulative perpetual preferred stock. "Tier 2" capital includes, among other things, qualifying subordinated debt and allowances for loan and lease losses, subject to limitations. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

Under the current regulatory framework, we are required to maintain the following minimum regulatory capital ratios:

- A ratio of common equity Tier 1 capital to total risk-weighted assets of at least 4.5%;
- A ratio of Tier 1 capital to total risk-weighted assets of at least 6.0%;
- A ratio of Tier 1 capital plus Tier 2 capital to total risk-weighted assets of at least 8.0%; and
- A leverage ratio (Tier 1 capital to adjusted total assets) of at least 4.0%.

In addition to these minimum regulatory capital ratios, the regulations establish a capital conservation buffer with respect to the first three capital ratios listed above. Specifically, banking organizations must hold common equity Tier 1 capital in excess of their minimum risk-based capital ratios by at least 2.5% of risk-weighted assets in order to avoid limits on capital distributions (including dividend payments, discretionary payments on Tier 1 instruments, and stock buybacks) and certain discretionary bonus payments to executive officers. Thus, when including the 2.5% capital conservation buffer, a bank holding company and bank's minimum ratio of common equity Tier 1 capital to total risk-weighted assets becomes 7%, its minimum ratio of Tier 1 capital to total risk-weighted assets becomes 8.5%, and its minimum ratio of total capital to total risk-weighted assets becomes 10.5%.

We were in compliance with all applicable minimum regulatory capital requirements as of December 31, 2020.

The required capital ratios set forth above are minimums, and the Federal Reserve and the OCC may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner. Risks such as concentration of credit risks and the risk arising from non-traditional activities, as well as the institution's exposure to a decline in the economic value of its capital due to changes in interest rates, and an institution's ability to manage those risks are important factors that are to be taken into account by the federal banking agencies in assessing an institution's overall capital adequacy.

The federal banking agencies finalized a rule in 2019 that allows bank holding companies and banks with less than \$10.0 billion in total consolidated assets, limited amounts of certain assets and off balance sheet exposures, and a bank leverage ratio of greater than 9% to elect to use the Community Bank Leverage Ratio ("CBLR") framework. A community banking organization electing to use the CBLR framework would have a simplified capital regime and would be considered well capitalized as long as it had a leverage ratio of greater than 9% (subsequently temporarily reduced to 8% as a COVID-19 relief measure). We have not elected to use the CBLR framework and it is uncertain if we will elect to use the CBLR framework in the future.

Furthermore, the U.S. federal banking agencies have finalized rules that would permit bank holding companies and banks to phase-in, for regulatory capital purposes, the day-one impact of the new current expected credit loss accounting rule in retained earnings over a period of three years commencing with time of adoption of the new standard. For further discussion of the new current expected credit loss accounting rule, see Note 1 to the consolidated financial statements and also see *"Our allowance for loan losses may prove to be insufficient to absorb losses inherent in our loan portfolio, and we may be required to further increase our provision for loan losses"* in *Item 1A. Risk Factors*.

**Prompt Corrective Action Regulations.** Under the prompt corrective action regulations, the OCC is required and authorized to take supervisory actions against undercapitalized financial institutions. For this purpose, a bank is placed in one of the following five categories based on its capital: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Under the prompt corrective action regulations, as currently in effect, to be well capitalized, a bank must have a leverage capital ratio of at least 5%, a common equity Tier 1 capital ratio of at least 6.5%, a Tier 1 risk-based capital ratio of at least 8%, and a total risk-based capital ratio of at least 10%, and must not be subject to any order or written agreement or directive by a federal banking agency to meet and maintain a specific capital level for any capital measure.

Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories that, if undertaken, could have a material adverse effect on the institution's operations or financial condition. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, banking regulators must appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category. An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. An undercapitalized institution also is generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with OCC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital. Additionally, only a well-capitalized depository institution may accept brokered deposits without prior regulatory approval.

Furthermore, a bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to various limitations. The controlling holding company's obligation to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets at the time it became undercapitalized or the amount required to meet regulatory capital requirements.

The capital classification of a bank affects the frequency of regulatory examinations, the bank's ability to engage in certain activities, and the deposit insurance premiums paid by the bank. As of December 31, 2020, the Bank met the requirements to be categorized as well capitalized under the prompt corrective action framework as currently in effect.

#### **Acquisitions by Bank Holding Companies**

Federal laws, including the Bank Holding Company Act and the Change in Bank Control Act, impose additional prior notice or approval requirements and ongoing regulatory requirements on any investor that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution or bank holding company. We must obtain the prior approval of the Federal Reserve before (1) acquiring more than 5% of the voting stock of any bank or other bank holding company, (2) acquiring all or substantially all of the assets of any bank or bank holding company, or (3) merging or consolidating with any other bank holding company. The Federal Reserve may determine not to approve any of these transactions if it would result in or tend to create a monopoly or substantially lessen competition or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned, the convenience and needs of the community to be served, and the record of a bank holding company and its subsidiary bank(s) in combating money laundering activities. In addition, a failure to implement and maintain adequate compliance programs could cause the Federal Reserve or other banking regulators not to approve an acquisition when regulatory approval is required or to prohibit an acquisition even if approval is not required.

#### **Scope of Permissible Bank Holding Company Activities**

In general, the Bank Holding Company Act limits the activities permissible for bank holding companies to the business of banking, managing or controlling banks, and such other activities as the Federal Reserve has determined to be so closely related to banking as to be properly incident thereto.

A bank holding company may elect to be treated as a financial holding company and receive expanded powers if it and its depository institution subsidiaries are “well capitalized” and “well managed,” and its subsidiary banks controlled by it have at least a “satisfactory” Community Reinvestment Act rating. We have elected for the Company to be treated as a financial holding company. As a financial holding company, we may engage in a range of activities that are (1) financial in nature or incidental to such financial activity or (2) complementary to a financial activity and which do not pose a substantial risk to the safety and soundness of a depository institution or to the financial system generally. These activities include securities dealing, underwriting and market making, insurance underwriting and agency activities, merchant banking and insurance company portfolio investments. Expanded financial activities of financial holding companies generally will be regulated according to the type of such financial activity: banking activities by banking regulators; securities activities by securities regulators; and insurance activities by insurance regulators.

The Bank Holding Company Act does not place territorial limitations on permissible non-banking activities of bank holding companies. The Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

### **Source of Strength Doctrine for Bank Holding Companies**

Under longstanding Federal Reserve policy which has been codified by the Dodd-Frank Act, we are expected to act as a source of financial strength to, and to commit resources to support, the Bank. This support may be required at times when we may not be inclined to provide it. In addition, any capital loans that we make to the Bank are subordinate in right of payment to deposits and to certain other indebtedness of the Bank. In the event of our bankruptcy, any commitment by us to a federal bank regulatory agency to maintain the capital of the Bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

### **Dividends**

As a bank holding company, we are subject to certain restrictions on dividends under applicable banking laws and regulations. The Federal Reserve has issued a policy statement that provides that a bank holding company should not pay dividends unless: (1) its net income over the last four quarters (net of dividends paid) has been sufficient to fully fund the dividends; (2) the prospective rate of earnings retention appears to be consistent with the capital needs, asset quality and overall financial condition of the bank holding company and its subsidiaries; and (3) the bank holding company will continue to meet minimum required capital adequacy ratios. Accordingly, a bank holding company should not pay cash dividends that exceed its net income or that can only be funded in ways that weaken the bank holding company’s financial health, such as by borrowing. The Dodd-Frank Act imposes, and Basel III effected, additional restrictions on the ability of banking institutions to pay dividends. In addition, in the current financial and economic environment, the Federal Reserve Board has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

The Bank is also subject to certain restrictions on dividends under federal laws, regulations and policies. In general, under OCC regulations, the Bank may pay dividends to us without the approval of the OCC only so long as the amount of the dividend does not exceed the Bank’s net income earned during the current year (net of dividends paid) combined with its retained net income (net of dividends paid) of the immediately preceding two years. The Bank must obtain the approval of the OCC for any amount in excess of this threshold. Further, a national bank may not pay a dividend in excess of its undivided profits. In addition, under federal law, the Bank may not pay any dividend to us if it is undercapitalized or the payment of the dividend would cause it to become undercapitalized. The OCC may further restrict the payment of dividends by requiring the Bank to maintain a higher level of capital than would otherwise be required to be adequately capitalized for regulatory purposes. Moreover, if, in the opinion of the OCC, the Bank is engaged in an unsound practice (which could include the payment of dividends even within the legal requirements noted above), the OCC may require the Bank to cease such practice. The OCC has indicated that paying dividends that deplete a depository institution’s capital base to an inadequate level would be an unsafe banking practice.

### **Restrictions on Transactions with Affiliates and Loans to Insiders**

Federal law strictly limits the ability of banks to engage in transactions with their affiliates, including their bank holding companies. Sections 23A and 23B of the Federal Reserve Act, and Federal Reserve Regulation W, impose quantitative limits, qualitative standards, and collateral requirements on certain transactions by a bank with, or for the benefit of, its affiliates, and generally require those transactions to be on terms at least as favorable to the bank as transactions with non-affiliates and to be consistent with safe and sound practices. The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization, including an expansion of the types of transactions that are covered transactions to include credit exposures related to derivatives, repurchase agreements and securities lending arrangements and an increase in the amount of time for which collateral requirements regarding covered transactions must be satisfied.

Federal law also limits a bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital.

### **Incentive Compensation Guidance**

The federal banking agencies have issued comprehensive guidance on incentive compensation policies. This guidance is designed to ensure that a financial institution's incentive compensation structure does not encourage imprudent risk taking, which may undermine the safety and soundness of the institution. The guidance, which applies to all employees that have the ability to materially affect an institution's risk profile, either individually or as part of a group, is based upon three primary principles: (1) balanced risk taking incentives; (2) compatibility with effective controls and risk management; and (3) strong corporate governance.

An institution's supervisory ratings will incorporate any identified deficiencies in an institution's compensation practices, and it may be subject to an enforcement action if the incentive compensation arrangements pose a risk to the safety and soundness of the institution. Further, regulations may limit discretionary bonus payments to bank executives if the institution's regulatory capital ratios fail to exceed certain thresholds.

### **Deposit Insurance Assessments**

FDIC insured banks are required to pay deposit insurance assessments to the FDIC. The amount of the assessment is based on the size of the bank's assessment base, which is equal to its average consolidated total assets less its average tangible equity, and its risk classification under an FDIC risk-based assessment system. Institutions assigned to higher risk classifications (that is, institutions that pose a higher risk of loss to the Deposit Insurance Fund) pay assessments at higher rates than institutions that pose a lower risk. An institution's risk classification is assigned based on certain financial data and the level of supervisory concern that the institution poses to the regulators. In addition, the FDIC can impose special assessments in certain instances. As noted above, the Dodd-Frank Act changed the way that deposit insurance premiums are calculated. Action by the FDIC to replenish the Deposit Insurance Fund when needed could result in higher assessment rates, which could reduce our profitability or otherwise negatively impact our operations.

### **Branching and Interstate Banking**

Under federal law, the Bank is permitted to establish additional branch offices within Louisiana, subject to the approval of the OCC. As a result of the Dodd-Frank Act, the Bank may also establish additional branch offices outside of Louisiana, subject to prior regulatory approval, so long as the laws of the state where the branch is to be located would permit a state bank chartered in that state to establish a branch. The Bank may also establish offices in other states by merging with banks or by purchasing branches of other banks in other states, subject to certain restrictions.

### **Community Reinvestment Act**

The Bank is required under the Community Reinvestment Act, or CRA, and related OCC regulations to help meet the credit needs of its communities, including low and moderate-income borrowers. In connection with its examination of the Bank, the OCC assesses our record of compliance with the CRA. The Bank's failure to comply with the provisions of the CRA could, at a minimum, result in denial of certain corporate applications, such as branches or mergers, or in restrictions on its or the

Company's activities. The Bank received a "Satisfactory" CRA rating on its most recent CRA Performance Evaluation. The CRA requires all FDIC-insured institutions to publicly disclose their rating.

### **Concentrated Commercial Real Estate Lending Regulations**

The federal bank regulatory agencies have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Owner occupied loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address, among other things, board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending. At December 31, 2020, the Company did not have a concentration in commercial real estate as defined by the regulatory guidance.

### **Financial Privacy and Cybersecurity Requirements**

Federal law and regulations limit a financial institution's ability to share consumer financial information with unaffiliated third parties. Specifically, these provisions require all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of personal financial information with unaffiliated third parties. The sharing of information for marketing purposes is also subject to limitations. The Bank currently has a privacy protection policy in place.

Federal law and regulations also establish certain information security guidelines that require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to develop, implement, and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

Federal banking regulators regularly issue guidance regarding cybersecurity intended to enhance cyber risk management. A financial institution is expected to implement multiple lines of defense against cyber-attacks. Financial institutions are also expected to implement procedures designed to address the risks posed by potential cyber threats, and to allow the institution to respond and recover effectively after a cyber-attack. The Company has adopted procedures designed to comply with the regulatory cybersecurity guidance.

### **Consumer Laws and Regulations**

The Bank is subject to numerous laws and regulations intended to protect consumers in transactions with the Bank, including, among others, laws regarding unfair, deceptive and abusive acts and practices, usury laws, and other federal consumer protection statutes. These federal laws include the Equal Credit Opportunity Act (the "ECOA"), the Electronic Fund Transfer Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Real Estate Settlement Procedures Act of 1974, the S.A.F.E. Mortgage Licensing Act of 2008, the Truth in Lending Act and the Truth in Savings Act, among others. Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those enacted under federal law. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans and conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general and civil or criminal liability.

In addition, the Dodd-Frank Act created the Consumer Financial Protection Bureau that has broad authority to regulate and supervise retail financial services activities of banks and various non-bank providers. The Bureau has authority to promulgate regulations, issue orders, guidance and policy statements, conduct examinations and bring enforcement actions with regard to consumer financial products and services. In general, however, banks with assets of \$10 billion or less, such as the Bank, will continue to be examined for consumer compliance by their primary federal bank regulator.

## **Mortgage Lending Rules**

The Dodd-Frank Act authorized the Consumer Financial Protection Bureau to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower's ability to repay. Under the Dodd-Frank Act, financial institutions may not make a residential mortgage loan unless they make a "reasonable and good faith determination" that the consumer has a "reasonable ability" to repay the loan. The Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure but provides a full or partial safe harbor from such defenses for loans that are "qualified mortgages." The Bureau's rules, among other things, specify the types of income and assets that may be considered in the ability-to-repay determination, the permissible sources for verification, and the required methods of calculating the loan's monthly payments. The rules extend the requirement that creditors verify and document a borrower's income and assets to include all information that creditors rely on in determining repayment ability. The rules also provide further examples of third-party documents that may be relied on for such verification, such as government records and check cashing or funds transfer service receipts. The rules also define "qualified mortgages," imposing both underwriting standards and limits on the terms of their loans. Points and fees are subject to a relatively stringent cap, and the terms include a wide array of payments that may be made in the course of closing a loan. Certain loans, including interest-only loans and negative amortization loans, cannot be qualified mortgages.

## **Anti-Money Laundering and OFAC**

Under federal law, financial institutions must maintain anti-money laundering programs that include: established internal policies, procedures and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and customer identification in their dealings with foreign financial institutions and foreign customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and law enforcement authorities have been granted increased access to financial information maintained by financial institutions.

The Office of Foreign Assets Control, or OFAC, is responsible for helping to insure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. Generally, if the Bank identifies a transaction, account or wire transfer relating to a person or entity on an OFAC list, it must freeze the account or block the transaction, file a suspicious activity report and notify the appropriate authorities.

Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution's compliance in connection with the regulatory review of applications, including applications for banking mergers and acquisitions. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing and comply with OFAC sanctions, or to comply with relevant laws and regulations, could have serious legal, reputational and financial consequences for the institution.

## **Safety and Soundness Standards**

Federal bank regulatory agencies have adopted guidelines that establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. Additionally, the agencies have adopted regulations that provide the authority to order an institution that has been given notice by an agency that it is not satisfying any of these safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the "prompt corrective action" provisions of the Federal Deposit Insurance Act. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Bank holding companies are also not permitted to engage in unsound banking practices. For example, the Federal Reserve's Regulation Y requires a holding company to give the Federal Reserve prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases in the preceding year, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. As another example, a holding company could not impair its subsidiary bank's soundness by causing it to make funds available to non-banking subsidiaries or their customers if the Federal Reserve believed it not prudent to do so. The Federal Reserve has broad authority

to prohibit activities of bank holding companies and their nonbanking subsidiaries that represent unsafe and unsound banking practices or that constitute violations of laws or regulations.

### **Effect of Governmental Monetary Policies**

The commercial banking business is affected not only by general economic conditions but also by U.S. fiscal policy and the monetary policies of the Federal Reserve. Some of the instruments of monetary policy available to the Federal Reserve include changes in the discount rate on member bank borrowings, the fluctuating availability of borrowings at the “discount window,” open market operations, the imposition of and changes in reserve requirements against member banks’ deposits and assets of foreign branches, and the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates. These policies influence to a significant extent the overall growth of bank loans, investments, and deposits and the interest rates charged on loans or paid on deposits. We cannot predict the nature of future fiscal and monetary policies and the effect of these policies on our future business and earnings.

### **Future Legislation and Regulatory Reform**

New laws, regulations and policies are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating in the United States. In addition, existing laws, regulations and policies are continually subject to modification or changes in interpretation. We cannot predict whether or in what form any law, regulation or policy will be adopted or modified or the extent to which our operations and activities, financial condition, results of operations, growth plans or future prospects may be affected by its adoption or modification.

The cumulative effect of these laws and regulations add significantly to the cost of our operations and thus have a negative impact on profitability. There has also been a tremendous expansion in recent years of financial service providers that are not subject to the same level of regulation, examination and oversight as we are. Those providers, because they are not so highly regulated, may have a competitive advantage over us and may continue to draw large amounts of funds away from traditional banking institutions, with a continuing adverse effect on the banking industry in general.

### **Employees**

As of December 31, 2020, we had 319 full-time and 7 part-time employees. None of our employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement. We believe that our relations with our employees are good.

### **Dependence upon a Single Customer**

No material portion of our loans has been made to, nor have our deposits been obtained from, a single or small group of customers; the loss of any single customer or small group of customers would not have a materially adverse effect on our business. A discussion of concentrations of credit in our loan portfolio is set forth under the heading *Loan Concentrations* in “Discussion and Analysis of Financial Condition—Loans” in *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations*.

### **Available Information**

Our filings with the Securities and Exchange Commission (the “SEC”), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments thereto, are available on our website as soon as reasonably practicable after the reports are filed with or furnished to the SEC. Copies can be obtained free of charge in the “Investor Relations” section of our website at [www.investarbank.com](http://www.investarbank.com). Our SEC filings are also available through the SEC’s website [www.sec.gov](http://www.sec.gov). Copies of these filings are also available by writing to us at the following address:

Investar Holding Corporation  
P.O. Box 84207  
Baton Rouge, Louisiana 70884-4207



## Item 1A. Risk Factors

*Our business is subject to risk. In addition to the other information contained in this Annual Report on Form 10-K, including management's discussion and analysis of financial condition and results of operations and our financial statements and the notes thereto, investors should consider the following risks when evaluating whether to invest in our common stock. If any of the following risks occur, whether alone or in combination, our business, financial condition, results of operations, cash flows and growth prospects could be materially and adversely affected. Additional risks that we do not presently know of or currently deem immaterial may also adversely affect our business, financial condition, results of operations, cash flows and growth prospects.*

### Risks Related to the COVID-19 Pandemic

*The COVID-19 pandemic may continue to adversely impact our business and financial results.*

The COVID-19 pandemic has created a worldwide public health crisis. The pandemic, and government actions taken to reduce the spread of the virus, have significantly increased economic uncertainty and reduced economic activity. Beginning in the first quarter of 2020, authorities implemented numerous measures to try to contain the virus. Government-mandated travel restrictions, closures of schools and businesses, occupancy restrictions, and stay-at-home orders, including in our market areas, significantly disrupted economic activities. These disruptions also caused steep increases in unemployment and decreases in consumer and business spending. Certain industries have been particularly hard-hit, including the oil and gas industry, the travel and hospitality industry, the restaurant industry and the retail industry. During the second quarter of 2020, many jurisdictions began to slowly lessen restrictions; however, there have since been multiple periods of resurgences in the number of new cases. Authorities have reacted to these resurgences by deferring the phasing out of these restrictions and, in some instances, re-imposing restrictions. Further, on June 8, 2020, the National Bureau of Economic Research indicated that the U.S. economy entered a recession in February 2020, and the duration of this recession is unclear at this time. The United States government has taken steps to attempt to mitigate some of the more severe anticipated economic effects of the pandemic, but there can be no assurance that such steps will be effective or that additional, similar governmental relief will be provided in the future.

The pandemic and related economic consequences have adversely impacted and are likely to further adversely impact our workforce, operations, and financial results. The operations of our borrowers, other customers and suppliers have also been affected. We have already increased our allowance for loan losses to reflect increased risks of losses and provided loan modifications to certain customers affected by COVID-19. We may experience future financial losses due to a number of factors, including but not limited to:

- the risk that financial stress on our borrowers will lead to loan defaults at a rate that is higher than we anticipate;
- the risk that loans that were modified due to the pandemic and not accounted for as troubled debt restructurings, and on which we continued to accrue interest, will ultimately default, requiring us to reverse related interest income and incur losses;
- a further decline in business activity causing decreased demand for our loans and other banking services, which may reduce related income and fees;
- further increases in our allowance for loan losses to reflect greater risks of losses;
- decreases in income resulting from deferrals of loan payments, increases in loan modifications, and waivers or reductions in ATM, overdraft, interchange and other fees;
- reductions in collateral values from their values when the loans were made;
- lower market interest rates, which have an adverse impact on our variable rate loans and reduce our interest income;
- potential impairment of goodwill;
- increased litigation risk from customers and non-customers that approach the Company regarding receiving PPP loans and do not receive the loan they requested;
- the risk that the SBA will not guarantee the PPP loans we originate if it determines that there is a deficiency in the manner in which any PPP loan was originated, funded, or serviced by us;
- the risk of holding PPP loans at unfavorable interest rates and on terms that are less than 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;
- increased instability in our deposit base;
- the risk that economic conditions may prevent the completion of any of our planned acquisitions;
- an increase in costs for additional cleaning, supplies and technology as we work to operate our branches in accordance with the health and safety guidelines imposed due to the pandemic;

- increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online and remote activity;
- third party disruptions, including outages at network providers and other suppliers; and
- lack of availability of employees due to illness.

These factors may remain prevalent for a significant period of time and may have a material adverse effect on our business, results of operations and financial condition, even after the COVID-19 outbreak has subsided.

The extent to which the COVID-19 pandemic will impact our business, results of operations and financial condition in the future is difficult to predict, particularly due to the unprecedented nature of the pandemic, and depends upon, among other things, the duration and spread of the outbreak, its severity, actions to contain the virus or treat its impact, the availability, acceptance and effectiveness of the recently approved vaccines, the impact of variants of the virus that have recently been detected in the U.S. and elsewhere, and how quickly and to what extent normal economic and operating conditions can resume.

### **Risks Related to our Business**

*As a business operating in the financial services industry, our business and operations may be adversely affected by prevailing economic conditions and geopolitical matters.*

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the primary markets where we operate and in the U.S. as a whole. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, high unemployment, natural disasters, pandemics (such as the COVID-19 pandemic) or fear of pandemics, or a combination of these or other factors. Additionally, declines in real estate value and sales volumes and high unemployment levels may result in higher than expected loan delinquencies and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity and financial condition.

In addition, geopolitical matters, including international political unrest, disruptions in international trade patterns, and slow growth in sectors of the global economy, as well as acts of terrorism, war and other violence could result in disruptions or volatility in the financial markets, which could reduce the value of our assets or reduce liquidity. These negative events could have a material adverse effect on our results of operations and financial condition, including our liquidity position, and may affect our ability to access capital.

*Our business strategy includes the continuation of our multi-state growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.*

We have grown our business primarily through de novo branching and through the acquisition of other financial institutions. Since our bank was founded in June 2006, through December 31, 2020, we have opened 14 de novo branches, completed six whole bank acquisitions, and acquired two branch locations. We have also expanded our operations outside our historical south Louisiana base and into Texas and Alabama, progressing towards our goal to build a premier regional community bank. As of January 21, 2021, we had pending the acquisition of Cheaha Financial Group, Inc., with four branch locations in Calhoun County, Alabama. We intend to continue pursuing a multi-state growth strategy for our business through de novo branching and to evaluate attractive acquisition opportunities and to continue to pursue organic growth throughout our franchise. Our growth prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies when expanding their franchise, including the following:

- **De Novo Branching; Branch Acquisitions.** There are considerable costs involved in opening branches, and new branches generally do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, our de novo branches can be expected to negatively impact our earnings for some period of time until the branches reach certain economies of scale. Our expenses could be further increased if we encounter delays in opening any of our de novo branches. We may be unable to accomplish future de novo branch expansion plans due to a lack of available satisfactory sites, difficulties in acquiring such sites, increased expenses or loss of potential sites due to complexities associated with zoning and permitting processes, or other factors. We may also be unable to identify and acquire suitable operating branches. Finally, we have no assurance our de novo branches or branches that we may acquire will maintain or achieve deposit levels, loan balances or other operating results necessary to avoid losses or produce

profits. Our growth and de novo branching strategy necessarily entails growth in overhead expenses as we routinely add new offices and staff. During the last three fiscal years, we have opened five de novo branches. We do not expect to open de novo branches in 2021.

- **Expansion into New Markets.** Prior to our acquisition of Mainland in the first quarter of 2019, we operated exclusively in Louisiana. With our acquisition of Mainland, we entered Texas, and we subsequently entered Alabama with our acquisition of Bank of York in November 2019. The financial services industry in these areas is highly competitive, and the challenges of operating in new markets and multiple states may be greater than we anticipate.
- **Acquisition and Integration Risks.** An acquisition strategy involves substantial risks and uncertainties including:
  - the time and costs of evaluating potential acquisition candidates and new markets, negotiating transactions, and related diversion of management's attention from day-to-day operations;
  - our ability to continue to finance acquisitions and possible dilution to our existing shareholders;
  - potential for acquisition agreements, once signed, not to be completed due to inability to obtain required regulatory approvals, third-party litigation, lack of shareholder approval if required, failure of other conditions to closing, agreement of the parties, or other reasons;
  - unanticipated difficulties in integrating acquired businesses, including potential losses of customers and employees, higher than expected integration costs, and inability to maintain and increase market share at new locations; and
  - potential differences between management's expectations regarding how an acquired business will perform and actual results once acquired, which may result in lower than expected revenues, inability to achieve expected cost savings and synergies, higher than expected liabilities and costs, impairments of goodwill, and losses.
- **Organic Growth Risks.** As we continue to pursue organic growth at our existing and new or acquired locations, we may be unable to successfully maintain loan quality, obtain deposits at attractive rates, attract and retain personnel to implement and oversee such growth, or maintain an efficient overhead cost structure. We may also introduce new products and services that do not produce projected profits and may result in losses.

Failure to successfully address these issues relating to our growth strategy could have a material adverse effect on our financial condition and results of operations. Also, if our growth occurs more slowly than anticipated or declines, our operating results could be materially adversely affected.

***Our business is concentrated in southern Louisiana, southeast Texas, and western Alabama, and an economic downturn affecting these areas may magnify the adverse effects and consequences to us.***

We currently conduct our operations primarily in southern Louisiana, and more specifically, in the Baton Rouge, New Orleans, Lafayette and Lake Charles metropolitan areas, in the greater Houston, Texas area, and in western Alabama. As of December 31, 2020, our primary markets were south Louisiana (approximately 86% of our total deposits of \$1.7 billion), southeast Texas (approximately 7% of our total deposits) and west Alabama (approximately 7% of our total deposits). We also have pending our acquisition of Cheaha Financial Group, Inc., with approximately \$202 million in deposits in east Alabama as of December 31, 2020. At December 31, 2020, approximately 66%, 6%, and 2% of the secured loans in our total loan portfolio were secured by properties and other collateral located in Louisiana, Texas and Alabama, respectively. Our pending acquisition of Cheaha Financial Group, Inc., if completed, would more than double our loans secured by properties and other collateral in Alabama.

This geographic concentration imposes a greater risk to us than to our competitors in the area who maintain significant operations outside of our selected markets. Accordingly, any regional or local economic downturn, or natural or man-made disaster, that affects southern Louisiana, southeast Texas, Alabama, or existing or prospective property or borrowers in such areas may affect us and our profitability more significantly and more adversely than our more geographically diversified competitors.

Much of our business development and marketing strategy is directed toward fulfilling the banking and financial services needs of small to medium-sized businesses. Such businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. If economic conditions negatively impact our selected markets and these businesses are adversely affected, our financial condition and results of operations may be negatively affected.

***Adverse economic factors affecting particular industries could have a negative effect on our customers and their ability to make payments to us.***

Certain industry-specific economic factors may also adversely affect us. For example, the energy sector, which is historically cyclical, has experienced significant volatility and a decline in oil and gas prices. While we consider our direct exposure to the energy sector not to be significant, comprising approximately 2.6% of total loans, excluding PPP loans, at December 31, 2020, continued and further depressed oil prices and increased oil price volatility could have further negative impacts on general economic conditions, particularly in our south Louisiana and southeast Texas markets, which could have a material adverse effect on our business, financial condition, and results of operations.

***We have a significant number of loans secured by real estate, and a downturn in the real estate market could result in losses and negatively impact our profitability.***

At December 31, 2020, approximately 78% of our total loan portfolio had real estate as a primary or secondary component of the collateral securing the loan. The real estate provides an alternate source of repayment in the event of a default by the borrower, but its value may deteriorate during the time the credit is extended. Declines in real estate values in our markets could significantly impair the value of the particular collateral securing our loans and our ability to sell the collateral upon foreclosure for an amount necessary to satisfy the borrower's obligations to us. Furthermore, in a declining real estate market, we often will need to further increase our allowance for loan losses to address the deterioration in the value of the real estate securing our loans. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, cash flows and growth prospects.

***Commercial real estate loans may expose us to greater risks than our other real estate loans.***

Our loan portfolio includes commercial real estate loans, which are secured by owner-occupied and nonowner-occupied commercial properties. As of December 31, 2020, our owner-occupied commercial real estate loans totaled \$375.4 million, or 20% of our total loan portfolio and our nonowner-occupied commercial real estate loans totaled \$437.0 million, or 24% of our total loan portfolio.

Commercial real estate loans typically depend on cash flows from the property to service the debt. Cash flows, either in the form of rental income or the proceeds from sales of commercial real estate, may be affected significantly by general economic conditions. Weak economic conditions may impair the borrower's business operations and typically slow the execution of new leases. Such economic conditions may also lead to existing lease turnover. As a result of these factors, vacancy rates for retail, office and industrial space may increase. High vacancy rates could also result in rents falling. The combination of these factors could result in deterioration in the fundamentals underlying the commercial real estate market and the deterioration in value of some of our loans. These loans expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be liquidated as easily as residential real estate. If we foreclose on these loans, our holding period for the collateral typically is longer than for a one-to-four family residential property because there are fewer potential purchasers of the collateral. Additionally, nonowner-occupied commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Accordingly, charge-offs on nonowner-occupied commercial real estate loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. Unexpected deterioration in the credit quality of our commercial real estate loan portfolio would require us to increase our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition, results of operations, cash flows and growth prospects.

***Commercial and industrial loans may expose us to greater risk than other loans.***

Commercial and industrial loans primarily consist of working capital lines of credit and equipment loans, typically secured by accounts receivable or inventory, or the relevant equipment. 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 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 and industrial 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.

***Changes in interest rates could have an adverse effect on our profitability.***

The majority of our assets and liabilities are monetary in nature and, as a result, we are subject to significant risk from changes in interest rates. Changes in interest rates may affect our net interest income as well as the valuation of our assets and liabilities. We cannot predict with certainty changes in interest rates, which are affected by many factors beyond our control, including inflation, recession, unemployment, money supply, competition for loans and deposits, domestic and international events, changes in the United States and other financial markets and the policies of the Federal Reserve. Our earnings depend significantly on our net interest income, which is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. We expect to periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates move contrary to our position, this “gap” may work against us, and our earnings may be adversely affected. When interest-bearing liabilities mature or reprice more quickly, or to a greater degree than interest-earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly, or to a greater degree than interest-bearing liabilities, falling interest rates could reduce net interest income.

Additionally, an increase in the general level of interest rates may also, among other things, adversely affect our current borrowers’ ability to repay variable rate loans, the demand for and our ability to originate loans, and decrease loan prepayment rates, or could increase the cost of the Company’s deposits and borrowings. These circumstances could not only result in increased loan defaults, foreclosures and charge-offs but also necessitate further increases to the allowance for loan losses. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income, but we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.

Conversely, a decrease in the general level of interest rates may lead to, among other things, prepayments on our loan and mortgage-backed securities portfolios as borrowers refinance their loans at lower rates, lower rates on new loans, lower rates on existing variable rate loans, and lower yields on investment securities, which could result in decreased yields on earning assets. Volatility in interest rates may increase competition for deposits, and raise the cost of deposits.

Although our asset-liability management strategy is designed to control and mitigate exposure to the risks related to changes in the general level of market interest rates, we may not be able to accurately predict the likelihood, nature and magnitude of those changes or how and to what extent they may affect our business. We also may not be able to adequately prepare for or compensate for the consequences of such changes. Any failure to predict and prepare for changes in interest rates or adjust for the consequences of these changes may adversely affect our earnings and capital levels. For additional information, see *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risk Management – Interest Rate Risk*.

***Our allowance for loan losses may prove to be insufficient to absorb losses inherent in our loan portfolio, and we may be required to further increase our provision for loan losses.***

Our business depends on our ability to successfully measure and manage credit risk. As a lender, we are exposed to the risk that the principal of and interest on a loan will not be paid timely or at all and that the value of any collateral supporting a loan will be insufficient to cover any exposure to loss on a loan. Management maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, to absorb probable credit losses inherent in the entire loan portfolio. We maintain our allowance for loan losses at a level considered adequate by management to absorb probable loan losses, including collateral impairment, based on our analysis of our portfolio and market environment, using relevant information available to us. Among other considerations in establishing the allowance for loan losses, management considers economic conditions reflected within industry segments, the unemployment rate in our markets, loan segmentation and historical losses that are inherent in the loan portfolio.

As of December 31, 2020, our allowance for loan losses as percentages of total loans and nonperforming loans was 1.09% and 147%, respectively. The determination of the appropriate level of the allowance is inherently subjective, involves a high degree of judgment and complexity, and requires us to make significant estimates of current credit risks and future trends, all of which are subject to material changes, particularly in light of the COVID-19 pandemic. In addition, loans acquired in connection with business combination transactions are measured at fair value, based on management’s estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows. Because fair value

measurements incorporate assumptions regarding credit risk, no allowance for loan losses related to the acquired loans is recorded on the acquisition date.

Inaccurate management assumptions, including with respect to the fair value of acquired loans, continuing deterioration of economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require us to increase our allowance for loan losses. In addition, bank regulatory agencies periodically review the allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. Finally, if actual charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital and may have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Commercial and industrial and commercial real estate loans generally are viewed as having more risk of default than residential real estate loans or other loans or investments. These types of loans are also typically larger than residential real estate loans and other consumer loans. Because the loan portfolio contains a significant number of commercial and industrial and commercial real estate loans with relatively large balances, the deterioration of a material amount of these loans may cause a significant increase in our allowance for loan losses, non-performing assets, TDRs and/or past due loans. An increase in our allowance for loan losses, non-performing assets, TDRs, and/or past due loans could result in a loss of earnings, or an increase in loan charge-offs, which would have an adverse impact on our results of operations and financial condition.

In addition, in June 2016, the Financial Accounting Standards Board (“FASB”) issued a new accounting standard (ASU No. 2016-13), referred to as Current Expected Credit Loss (“CECL”) that requires that the measurement of all expected credit losses for financial assets held at the reporting date be 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, the new standard amends the accounting for credit losses on purchased financial assets with credit deterioration. We are currently evaluating the potential impact of this new accounting standard on our financial statements. 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. 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 portfolio, as well as the prevailing economic conditions and forecasts, as of the adoption date. ASU 2016-13 will currently be effective for us, as a smaller reporting company, on January 1, 2023. We expect to adopt the standard as soon as practicable, based upon progress on our implementation plan. Adoption prior to the revised effective date of January 1, 2023 is permitted by the ASU.

The FDIC, Federal Reserve and the OCC issued a final rule to allow a banking organization to elect to phase in the regulatory capital impact over a three-year period commencing with time of adoption of the new standard. A failure to effectively measure the impact of the new CECL standard may result in significant overstatement or understatement of our allowance for loan and lease losses, and in the event of an understatement, may necessitate that we significantly increase our allowance for loan and lease losses, which could adversely affect our net income.

***Loss of our senior executive officers or other key employees and our inability to recruit or retain suitable replacements could adversely affect our business, results of operations and growth prospects.***

Our success depends significantly on the continued service and skills of our existing executive management team. The implementation of our business and growth strategies also depends significantly on our ability to retain employees with experience and business relationships within their respective market areas, as well as on our ability to attract, motivate and retain highly qualified senior and middle management. We do not have employment agreements with any of our executive officers, and they may terminate their employment with us at any time. Competition for employees is intense, and we could have difficulty replacing such officers with personnel with the combination of skills and attributes required to execute our business and growth strategies and who have ties to the communities within our market areas. The loss of any of our key personnel could therefore have a material adverse effect on our business, financial condition, results of operations and growth prospects.

***Changes in the method pursuant to which the LIBOR and other benchmark rates are determined could adversely impact our business and results of operations.***

Our floating-rate funding, certain hedging transactions and certain of the products we offer, such as floating-rate loans, determine their applicable interest rate or payment amount by reference to a benchmark rate, such as LIBOR, or to an index, currency, basket or other financial metric. The administrator of LIBOR has proposed to extend publication of the most commonly used U.S. Dollar LIBOR settings to June 30, 2023 and to cease publishing other LIBOR settings on December 31, 2021. The U.S. federal banking agencies have issued guidance strongly encouraging banking organizations to cease using U.S. dollar LIBOR as a reference rate in new contracts as soon as practicable and in any event by December 31, 2021. Consequently, at this time, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR, or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-linked financial instruments. Certain of our LIBOR-based financial products and contracts, including, but not limited to, hedging products, debt obligations, investments and loans, extend beyond 2021. We are in the process of assessing the impact that a cessation or market replacement of LIBOR would have on these various products and contracts.

***Hurricanes or other adverse weather conditions, as well as man-made disasters, could negatively affect our local markets or disrupt our operations, which may adversely affect our business and results of operations.***

Our business is concentrated in southern Louisiana, in southeast Texas, and in west Alabama. Our selected markets are susceptible to major hurricanes, floods, tropical storms, tornadoes and other natural disasters and adverse weather, the nature and severity of which can be difficult to predict. These natural disasters can disrupt our operations, cause widespread property damage, and severely depress the local economies in which we operate. For example, the historic flooding of Baton Rouge and surrounding areas in August 2016 had significant impacts in several markets in which we conduct business. Hurricane Harvey caused significant damage and flooding in Texas when it made landfall in August 2017. The severity and impact of future severe weather events are difficult to predict and may be exacerbated by global climate change. The 2010 Deepwater Horizon oil spill in the Gulf of Mexico illustrated that man-made disasters can also adversely affect economic activity in the markets in which we operate. Any economic decline as a result of a natural disaster, adverse weather, oil spill or other man-made disaster can reduce the demand for loans and our other products and services.

Such events could also affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans (resulting in increased delinquencies, foreclosures and loan losses), impair the value of collateral securing such loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. The occurrence of any such event could, therefore, result in decreased revenue and loan losses that have a material adverse effect on our business, financial condition, results of operations and growth prospects.

***Our failure to effectively implement new technologies could adversely affect our operations and financial condition.***

Our industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. Our ability to compete successfully to some extent depends on whether we can implement new technologies to provide products and services to our customers more efficiently while avoiding significant operational challenges that increase our costs or delay full implementation, especially relative to our peers, many of which have greater resources to devote to technological improvements.

***We rely on information technology and telecommunications systems, many of which are provided by third-party vendors.***

The successful and uninterrupted functioning of our information technology and telecommunications systems is critical to our business. We outsource many of our major systems, such as data processing and deposit processing. If one of these third-party service providers terminates their relationship with us or fails to provide services to us for any reason or provides such services poorly, our business may be materially and adversely affected. In addition, we may be forced to replace such vendors, which could interrupt our operations and result in a higher costs to us.

***Cyber-attacks or other security breaches could adversely affect our operations, net income or reputation.***

As part of our banking business, we and certain of our third-party vendors collect, use and hold sensitive data concerning individuals and businesses with whom we have a banking relationship. Threats to data security, including unauthorized access and cyber-attacks, rapidly emerge and change and are becoming increasingly sophisticated, exposing us to additional costs to secure our data in accordance with customer expectations and statutory and regulatory requirements. We could also experience a breach by intentional or negligent conduct on the part of our employees or other internal sources or by merchants using our

customers' debit and credit cards, software bug, other technical malfunctions, or other causes. As a result of any of these threats, our computer systems and/or our customer accounts could become vulnerable to misappropriation of confidential information, account takeover schemes or cyber-fraud. Our systems and those of our third-party vendors may become vulnerable to damage or disruption due to circumstances beyond our or their control, such as from catastrophic events, power anomalies or outages, natural disasters, network failures, and viruses and malware.

A breach of security that results in unauthorized access to our data could result in violations of applicable privacy and other laws and expose us to disruptions in our daily operations as well as to data loss, litigation, damages, fines and penalties, customer notification requirements, significant increases in compliance and insurance costs, increases in costs for measures to minimize and remediate these risks and breaches, loss of confidence in our security measures, and reputational damage, any of which could individually or in the aggregate have a material adverse effect on our business, results of operations, financial condition, prospects, and shareholder value.

We have attempted to address these concerns by backing up our systems as well as retaining qualified third-party vendors to test and audit our network. However, there can be no guarantees that our efforts and those of our third-party vendors will be successful in avoiding material problems with our information technology and telecommunications systems. We may not be able to anticipate all cyber security breaches or implement effective preventative measures against such breaches.

***Loss of deposits or a change in deposit mix could increase the Company's funding costs.***

Deposits are a low cost and stable source of funding. We compete with banks and other financial institutions for deposits. Funding costs could increase if the Company loses deposits and replaces them with more expensive sources of funding, if customers shift their deposits into higher cost products, or if the Company needs to raise its interest rates to avoid losing deposits. Higher funding costs reduce the Company's net interest margin, net interest income and net income.

***We may need to raise additional capital in the future to execute our business strategy.***

In addition to the liquidity that we require to conduct our day-to-day operations, the Company, on a consolidated basis, and the Bank, on a stand-alone basis, must meet regulatory requirements. Also, we may need capital to finance our growth, including through acquisitions. In 2019, we sold \$25.0 million of subordinated notes structured to qualify as tier 2 capital, and \$30.0 million of common stock, in part to fund acquisitions.

Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, there can be no assurances that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our business, financial condition, results of operations and growth prospects could be materially and adversely affected.

***Competition in our industry is intense, which could adversely affect our growth and profitability.***

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and have substantially greater resources than we have, including higher total assets and capitalization, a more extensive and established branch network, greater access to capital markets and a broader offering of financial services. Such competitors primarily include national, regional and community banks within the various markets in which we operate. Because of their scale, many of these competitors can be more aggressive than we can on loan and deposit pricing. We also face competition from many other types of financial institutions, including savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. Many of these entities have fewer regulatory constraints and may have lower cost structures than we do.

Our industry could become even more competitive as a result of legislative and regulatory changes as well as continued consolidation. The increased regulatory requirements imposed on financial institutions as well as the economic downturn in the United States in the 2007-2009 time frame, and generally slow recovery thereafter, have already resulted in the consolidation of a number of financial institutions, in addition to acquisitions of failed institutions. We expect additional consolidation to occur. Finally, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Our ability to compete successfully depends on a number of factors, including customer convenience, quality of service, personal contacts, pricing and range of products. If we are unable to successfully compete, our business, financial condition, results of operations and growth prospects will be materially adversely affected.



***If the goodwill that we record in connection with a business acquisition becomes impaired, it could require charges to earnings, which would have a negative impact on our financial condition and results of operations.***

Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets we acquired in connection with the purchase of another financial institution. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying value of the asset might be impaired.

We determine impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. As of December 31, 2020, our goodwill totaled \$28.1 million. While we have not recorded any such impairment charges since we initially recorded the goodwill, there can be no assurance that our future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

***Factors outside our control could result in impairment of or losses with respect to our investment securities.***

Under applicable accounting standards, we are required to review our securities portfolio periodically for the presence of other-than-temporary impairment, taking into consideration current market conditions, the extent and nature of changes in fair value, issuer rating changes and trends, volatility of earnings, current analysts' evaluations, our ability and intent to hold securities until a recovery of fair value, as well as other factors. Adverse developments with respect to one or more of the foregoing factors may require us to deem particular securities to be other-than-temporarily impaired, with the credit related portion of the reduction in the value recognized as a charge to the results of operations in the period in which the impairment occurs. Market volatility may make it difficult to value certain securities. Subsequent valuations, in light of factors prevailing at that time, may result in significant changes in the values of these securities in future periods. Any of these factors could require us to recognize further impairments in the value of our securities portfolio, which may have an adverse effect on our results of operations in future periods.

***A lack of liquidity could adversely affect our ability to fund operations and meet our obligations as they become due.***

Liquidity is essential to our business. Liquidity risk is the potential that we will be unable to meet our obligations as they come due because of an inability to liquidate assets or obtain adequate funding. The primary source of the Bank's funds are customer deposits and loan repayments, while borrowings are a secondary source of liquidity. Our access to deposits and other funding sources in adequate amounts and on acceptable terms is affected by a number of factors, including rates paid by competitors, returns available to customers on alternative investments and general economic conditions. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, pay dividends to our shareholders, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our business, financial condition, results of operations and growth prospects.

***We face significant operational and other risks related to our activities, which could expose us to negative publicity, litigation and/or regulatory action.***

We are exposed to many types of operational risks, including, particularly as a financial institution, fraud risks and human error. Our fraud risks include fraud committed by external parties against the Company or our customers and fraud committed internally by our associates. Certain fraud risks, including identity theft and account takeover, may increase as a result of customers' accounts or personally identifiable information being obtained through breaches of retailers' or other third parties' networks. There are inherent limitations to our risk management strategies, as there may exist, or develop in the future, risks that we have not appropriately anticipated, monitored or identified. If our risk management framework proves ineffective, we could suffer unexpected losses, we may have to expend resources detecting and correcting the failure in our systems and we may be subject to potential claims from third parties and government agencies. We may also suffer severe reputational damage. Any of these consequences could materially and adversely affect our business, financial condition or results of operations.

Because the nature of the financial services industry involves a high volume of transactions, certain systems or human errors may be repeated or compounded before they are discovered and successfully rectified. The Company's necessary dependence upon automated systems to record and process our transaction volume may further increase the risk that technical flaws or associate tampering or manipulation of those systems will result in losses that are difficult to detect. The Company is further exposed to the risk that our third-party vendors may be unable to fulfill their contractual obligations, or will be subject to the same risk of fraud or systems or human errors as we are. These risks include the cyber-security risks discussed above.

## **Risks Related to Our Industry**

### ***We operate in a highly regulated environment, which could restrain our growth and profitability.***

We are subject to extensive regulation and supervision under federal and state banking laws and regulations that govern almost all aspects of our operations, including, among other things, our lending practices, capital structure, investment practices, dividend policy, operations and growth. The level of regulatory scrutiny that we are subject to may fluctuate over time, based on numerous factors, including as a result of the change in the U.S. presidential administration in January 2021. These laws and regulations, and the supervisory framework that oversees the administration of these laws and regulations, are primarily intended to protect consumers, depositors, the Deposit Insurance Fund and the banking system as a whole, and not shareholders and counterparties. Furthermore, new proposals for legislation continue to be introduced in the U.S. Congress that could further substantially increase regulation of the financial services industry, impose restrictions on our operations and our ability to conduct business consistent with historical practices, including in the areas of compensation, interest rates, financial product offerings and disclosures, and have an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Our efforts to comply with these additional laws, regulations and standards are likely to result in increased expenses and a diversion of management time and attention. The information under the heading “Supervision and Regulation” in *Item 1. Business*, provides more information regarding the regulatory environment in which we and the Bank operate.

### ***Federal regulators periodically examine our business, and we may be required to remediate adverse examination findings.***

The financial services industry is subject to intense scrutiny from bank supervisors in the examination process and aggressive enforcement of regulations on both the federal and state levels. The Federal Reserve and the OCC periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a federal banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. If we become subject to any regulatory actions, it could have a material adverse effect on our business, results of operations, financial condition and growth prospects. Failure to comply with any applicable regulations and supervisory expectations related thereto could result in fines, penalties, lawsuits, regulatory sanctions, reputation damage or restrictions on business.

### ***We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.***

The ECOA, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice and other federal agencies enforce these laws and regulations, but private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation. If an institution’s performance under the fair lending laws and regulations is found to be deficient, the institution could be subject to damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new business lines, among other sanctions. In addition, the OCC’s assessment of our compliance with the Community Reinvestment Act (“CRA”) is taken into account when evaluating any application we submit for, among other things, approval of the acquisition or establishment of a branch or other deposit facility, an office relocation, a merger or the acquisition of another financial institution. Our failure to satisfy our CRA obligations could, at a minimum, result in the denial of such applications and limit our growth.

### ***We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.***

The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal

Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition, results of operations and growth prospects.

In addition, bank regulatory agencies consider the effectiveness of a financial institution's anti-money laundering activities and other regulatory compliance matters when reviewing bank mergers and bank holding company acquisitions. Accordingly, non-compliance with the applicable regulations could materially impair the Company's ability to enter into or complete mergers and acquisitions.

***Our success depends on our ability to respond to the threats and opportunities of fintech innovation.***

Fintech developments, such as bitcoin or other types of cryptocurrency and the development of alternative payment systems, have the potential to disrupt the financial industry and change the way banks do business. Our success depends on our ability to adapt to the pace of the rapidly changing technological environment, which is crucial to retention and acquisition of customers. On July 31, 2018, the OCC announced it will grant limited-purpose national bank charters to fintech companies that offer bank products and services. The federal charter would allow fintech companies to operate nationwide under a single set of national standards, without needing to seek state-by-state licenses or joining with brick-and-mortar banks, which could have the effect of allowing fintech companies to more easily compete with us for financial products and services in the communities we serve. In October 2019, a federal district court blocked the OCC's ability to issue such charters. The OCC has filed an appeal which is still pending.

***We may be required to pay significantly higher FDIC deposit insurance premiums in the future.***

The deposits of Investar Bank are insured by the FDIC up to legal limits and, accordingly, subject it to the payment of FDIC deposit insurance assessments. We are generally unable to control the amount of premiums that we are required to pay for FDIC deposit insurance. A bank's regular assessments are determined by its risk classification, which is based on certain financial information and the level of supervisory concern that it poses. In order to maintain a strong funding position and restore the reserve ratios of the DIF, the FDIC has, in the past, increased deposit insurance assessment rates and charged a special assessment to all FDIC-insured financial institutions. Further increases in assessment rates or special assessments may occur in the future, especially if there are significant financial institution failures. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have an adverse effect on our business, financial condition and results of operations.

***Our use of third-party vendors and our other ongoing third-party business relationships are subject to increasing regulatory requirements and attention.***

We regularly use third-party vendors as part of our business. We also have substantial ongoing business relationships with other third parties. These types of third-party relationships are subject to increasingly demanding regulatory requirements and attention by our federal bank regulators. Regulation requires us to perform due diligence and ongoing monitoring and control over our third-party vendors and other ongoing third-party business relationships. In certain cases we may be required to renegotiate our agreements with these vendors to meet these requirements, which could increase our costs. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third party relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third-party vendors or other ongoing third party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect our business, financial condition or results of operations.

## **Risks Related to an Investment in our Common Stock**

*The market price of our common stock may be volatile, which may make it difficult for investors to sell their shares at the volume, prices and times desired.*

The market price of our common stock may fluctuate substantially due to a variety of factors, many of which are beyond our control, including, without limitation:

- actual or anticipated variations in our quarterly and annual operating results, financial condition or asset quality;
- changes in general economic or business conditions, both domestically and internationally;
- the effects of, and changes in, trade, monetary and fiscal policies, including the interest rate policies of the Federal Reserve, or in laws and regulations affecting us;
- changes in the credit, mortgage and real estate markets;
- the number of securities analysts covering us;
- our creditworthiness;
- publication of research reports about us, our competitors, or the financial services industry generally, or changes in, or failure to meet, securities analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;
- changes in market valuations or earnings of companies that investors deemed comparable to us;
- the average daily trading volume of our common stock;
- future issuances of our common stock or other securities;
- changes in dividends on our common stock;
- additions or departures of key personnel;
- perceptions in the marketplace regarding our competitors and/or us;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving our competitors or us; and
- other news, announcements or disclosures (whether by us or others) related to us, our competitors, our markets or the financial services industry.

The stock market and, in particular, the market for financial institution stocks have experienced significant fluctuations in recent years. For example, the COVID-19 pandemic led to a period of depressed market conditions in the first quarter of 2020, and market conditions have remained volatile since that period. In addition, significant fluctuations in the trading volume in our common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our common stock, which may make it difficult for investors to sell their shares at the volume, prices and times desired.

*Shares eligible for future sale could adversely affect market prices of our common stock.*

Shares of our common stock eligible for future sale, including those that may be issued in any private or public offering of our common stock, as consideration in acquisition transactions, or as incentives under incentive plans, could adversely affect market prices for our common stock. As of December 31, 2020, we had 10,608,869 shares outstanding and 408,288 shares subject to options granted under our incentive plan. On December 19, 2019, we sold 1,290,323 shares of our common stock in a private placement and have registered those shares for resale under the Securities Act of 1933, as amended (the "Securities Act"). Because our other outstanding shares of common stock either were issued in an offering registered under the Securities Act or have been held for more than one year, such shares are freely tradable, except for shares held by our affiliates (approximately 8% of shares outstanding as of December 31, 2020) and 207,146 shares that represent unvested restricted shares under our incentive plan. Shares issued under our incentive plan will be available for sale into the public market, except for shares held by our affiliates. Shares held by our affiliates may be resold subject to the restrictions in Rule 144 of the Securities Act. In the future, we may issue additional shares of common stock to raise capital for growth or as consideration in acquisition transactions or for other purposes, and such shares may be registered under the Securities Act and freely tradable or may be issued in a private placement and registered for resale under the Securities Act.

***Our dividend policy may change without notice, and our future ability to pay dividends is subject to restrictions.***

Holders of our common stock are entitled to receive only such cash dividends as our board of directors may declare out of funds legally available for the payment of dividends. We have no obligation to continue paying dividends, and we may change our dividend policy at any time without notice to our shareholders. 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 our parent company 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 as “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.

Since the Company’s primary asset is its stock of Investar Bank, we are dependent upon dividends from the Bank to pay our operating expenses, satisfy our obligations and to pay dividends on the Company’s common stock. Accordingly, any declaration and payment of dividends on common stock will substantially depend upon the Bank’s earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate and other factors deemed relevant by our board of directors. Furthermore, consistent with our strategic plans, growth initiatives, capital availability, projected liquidity needs, and other factors, we have made, and will continue to make, capital management decisions and policies that could adversely impact the amount of dividends, if any, paid to our common shareholders.

In addition, there are numerous laws and banking regulations that limit our and Investar Bank’s ability to pay dividends. For Investar Bank, federal statutes and regulations require, among other things, that the Bank maintain certain levels of capital in order to pay a dividend. Further, federal banking authorities have the ability to restrict the payment of dividends by supervisory action. At the holding company level, the Federal Reserve Board has indicated that bank holding companies should carefully review their dividend policy in relation to the organization’s overall asset quality, level of current and prospective earnings and level, composition and quality of capital. The guidance requires that a company inform and consult with the Federal Reserve Board prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in an adverse change to its capital structure.

***Our Restated Articles of Incorporation and By-laws, and certain banking laws applicable to us, could have an anti-takeover effect that decreases our chances of being acquired, even if our acquisition is in our shareholders’ best interests.***

Certain provisions of our restated articles of incorporation and our by-laws, as amended, and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire control of our organization or conduct a proxy contest, even if those events were perceived by many of our shareholders as beneficial to their interests. These provisions, and the corporate and banking laws and regulations applicable to us:

- enable our board of directors to issue additional shares of authorized, but unissued capital stock. In particular, our board may issue “blank check” preferred stock with such designations, rights and preferences as may be determined from time to time by the board;
- enable our board of directors to increase the size of the board and fill the vacancies created by the increase;
- enable our board of directors to amend our by-laws without shareholder approval;
- require advance notice for director nominations and other shareholder proposals; and
- require prior regulatory application and approval of any transaction involving control of our organization.

These provisions may discourage potential acquisition proposals and could delay or prevent a change in control, including circumstances in which our shareholders might otherwise receive a premium over the market price of our shares.

***Our issuance of preferred stock could adversely affect holders of our common stock and discourage a takeover.***

Our shareholders authorized our board of directors to issue up to 5,000,000 shares of preferred stock without any further action on the part of our shareholders. The board also has the power, without shareholder approval, to set the terms of any series of preferred stock that may be issued, including voting rights, dividend rights, preferences over our common stock with respect to dividends or in the event of a dissolution, liquidation or winding up and other terms. In the event that we issue preferred stock in the future that has preference over our common stock with respect to payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of the holders of our common stock or the market price of our common stock could be adversely affected. In addition,

the ability of our board of directors to issue shares of preferred stock without any action on the part of our shareholders may impede a takeover of us and prevent a transaction perceived to be favorable to our shareholders.

*An investment in our common stock is not an insured deposit and is subject to risk of loss.*

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this “Risk Factors” section and elsewhere in this Annual Report on Form 10-K and is subject to the same market forces that affect the price of common stock in any company. As a result, an investor may lose some or all of his or her investment in our common stock.

**Item 1B. Unresolved Staff Comments**

Not applicable.

## **Item 2. Properties**

Our main office, which serves as our executive and operations center, is located at 10500 Coursey Boulevard in Baton Rouge, Louisiana. In addition, we operate 31 branches. Our 24 branches in Louisiana are located in Ascension (2), East Baton Rouge (5), West Baton Rouge (1), Jefferson (2), Lafayette (2), Livingston (1), Orleans (1), St. Tammany (1), Tangipahoa (1), East Feliciana (2), West Feliciana (1), Evangeline (3) and Calcasieu (2) Parishes. Our five branches in Texas are located in Galveston (2), Harris (1), Victoria (1) and Jim Wells (1) Counties. In Alabama, two branches are located in Sumter County and one loan production office is located in Tuscaloosa County. We also have one stand-alone automated teller machine in Baton Rouge, Louisiana and one stand-alone interactive teller machine in Morgan City, Louisiana.

We own our main office and all of our branch offices in Louisiana and Alabama, with the exception of two leased branch locations and one leased loan production office. Of the branches acquired from Mainland, located in Texas, one location is owned and two are leased properties. Each of our owned branch facilities is a stand-alone building, equipped with an automated teller machine or interactive teller machine, on-site parking, and drive-up access. Both branches acquired from PlainsCapital, also located in Texas, are leased properties. We believe that our facilities are in good condition and are adequate to meet our operating needs for the foreseeable future.

We also own two tracts of land in East Baton Rouge Parish and a tract of land in each of the following Louisiana parishes: St. Mary Parish; Lafayette Parish; Jefferson Parish; and Ascension Parish. Each tract of land has been designated as either a future branch or standalone interactive teller machine location. The timing of the development of these tracts of land is uncertain.

## **Item 3. Legal Proceedings**

From time to time we are party to ordinary routine litigation matters incidental to the conduct of our business. We are not presently party to, and none of our property is the subject of, any legal proceedings, the resolution of which we believe would have a material adverse effect on our business, financial condition, results of operations, cash flows, growth prospects or capital levels, nor were any such proceedings terminated during the fourth quarter of 2020.

## **Item 4. Mine Safety Disclosures**

Not applicable.

## **PART II**

## **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

### **Market Information**

Our common stock is listed on the Nasdaq Global Market (the "Nasdaq") under the symbol "ISTR." As of March 8, 2021, there were approximately 724 holders of record of our common stock.

### **Dividend Policy**

The Company has paid a quarterly dividend since 2011 and intends to continue to declare dividends on a quarterly basis. The declaration of dividends is at the discretion of our board of directors and will depend on our financial performance, future prospects, regulatory requirements and other factors deemed relevant by the board of directors.

Since we are a holding company with no material business activities, our ability to pay dividends is substantially dependent upon the ability of Investar 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. See *Item 1. Business — Supervision and Regulation — Dividends*, above for a discussion of the restrictions on dividends under federal banking laws and regulations. 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 our parent company 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.

These restrictions do not, and are not expected in the future to, materially limit the Company’s ability to pay dividends to its shareholders in an amount consistent with the Company’s history of paying dividends.

**Stock Performance Graph**

The following graph compares the cumulative total shareholder return on the Company’s common stock over a measurement period beginning January 1, 2016 with (i) the cumulative total return on the stocks included in the Russell 3000 Index and (ii) the cumulative total return on the stocks included in the SNL Index of Banks with assets between \$1 billion and \$5 billion. The performance graph assumes that the value of the investment in our common stock, the Russell 3000 Index and the SNL Index of Banks was \$100 at January 1, 2016 and that all dividends were reinvested.



Index	12/31/2015	6/30/2016	12/31/2016	6/30/2017
Investar Holding Corporation	\$ 100.00	\$ 87.50	\$ 106.24	\$ 130.70
Russell 3000	100.00	103.62	112.74	122.80
SNL U.S. Bank \$1B-\$5B	100.00	98.71	143.87	144.16
	12/31/2017	6/30/2018	12/31/2018	6/30/2019
Investar Holding Corporation	\$ 137.72	\$ 158.43	\$ 142.83	\$ 137.68
Russell 3000	136.56	140.95	129.40	153.61
SNL U.S. Bank \$1B-\$5B	153.37	166.59	134.37	147.44
	12/31/2019	6/30/2020	12/31/2020	
Investar Holding Corporation	\$ 139.56	\$ 84.78	\$ 97.99	
Russell 3000	169.54	163.64	204.95	
SNL U.S. Bank \$1B-\$5B	163.35	114.27	138.81	

There can be no assurance that our common stock performance will continue in the future with the same or similar trends depicted in the performance graph above. We will not make or endorse any predictions as to future stock performance.

*The information provided under the heading "Stock Performance Graph" shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to its proxy regulations or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, other than as provided in Item 201 of Regulation S-K. The information provided in this section shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.*

### Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased <sup>(1)</sup>	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Be Purchased Under the Plans or Programs <sup>(2)</sup>
October 1, 2020 to October 31, 2020	7,700	\$ 13.19	7,700	278,029
November 1, 2020 to November 30, 2020	598	13.57	500	277,529
December 1, 2020 to December 31, 2020	12,699	16.69	12,699	264,830
	20,997	\$ 15.32	20,899	264,830

<sup>(1)</sup> Includes 98 shares surrendered to cover the payroll taxes due upon the vesting of restricted stock.

<sup>(2)</sup> On March 10, 2020, 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 326,344 shares that were remaining as authorized for repurchase at December 31, 2019. On August 27, 2020, 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.

### Unregistered Sales of Equity Securities

Not applicable.

### Securities Authorized for Issuance under Equity Compensation Plans

Please refer to the information under the heading "Securities Authorized for Issuance under Equity Compensation Plans" in *Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*, for a discussion of the securities authorized for issuance under the Company's equity compensation plans.

### Item 6. Selected Financial Data

Not applicable.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section presents management's perspective on the financial condition and results of operations of Investar Holding Corporation (the "Company," "we," "our," or "us") and its wholly-owned subsidiary, Investar Bank, National Association (the "Bank"). The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related notes and other supplemental information included herein. Certain risks, uncertainties and other factors, including those set forth under *Item 1A. Risk Factors* in Part I, and elsewhere in this Annual Report on Form 10-K, may cause actual results to differ materially from those projected results discussed in the forward-looking statement appearing in this discussion and analysis.

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K, both in Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere, contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include statements relating to our projected growth, anticipated future financial performance, financial condition, credit quality and performance goals, as well as statements relating to the anticipated effects on our business, financial condition and results of operations from expected developments, our growth, and potential acquisitions. These statements can typically be identified through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "think," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature.

Our forward-looking statements contained herein are based on assumptions and estimates that management believes to be reasonable in light of the information available at this time. However, many of these statements are inherently uncertain and beyond our control and could be affected by many factors. Factors that could have a material effect on our business, financial condition, results of operations, cash flows and future growth prospects can be found in *Item 1A. Risk Factors*. 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;
- ongoing disruptions in the oil and gas industry due to the significant decrease in the price of oil;
- 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;
- 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 any pending or 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 (including the recent hurricanes, tropical storms and tropical depressions that have affected the Company's market areas), floods, winter storms, other natural disasters and adverse weather; oil spills and other man-made disasters; 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.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included herein. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements.

Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

### **Recent Developments Related to COVID-19**

*Overview.* 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 fourth quarter of 2020 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.

*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 Program. 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, legislation was enacted providing additional 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.

Paycheck Protection Program. Beginning in the second quarter of 2020, the Bank has participated as a lender in the PPP as established by the CARES Act and enhanced by the Paycheck Protection Program and Health Care Enhancement Act and 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, legislation 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 the PPP in January 2021, and the application period will last until March 31, 2021, subject to the availability of funds. In April 2020, we began originating loans to qualified small businesses under the PPP. At December 31, 2020, our loan portfolio included PPP loans with a balance of \$94.5 million, 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. Legislation enacted on December 27, 2020, extended this relief 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, during 2020, we offered short-term modifications made in response to COVID-19 to borrowers who were 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 December 31, 2020, the balance of loans participating in the 90-day deferral program was approximately \$5.9 million, or 0.3% of the total loan portfolio. 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, in Louisiana, where most of our operations are currently located, a stay-at-home order was issued on March 22, 2020, and the state moved into Phase 1 of recovery on May 15, 2020, Phase 2 on June 4, 2020, and Phase 3 on September 11, 2020. However, the state 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. 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 31 branch locations and through drive-thrus, ATMs, internet banking, mobile application and telephone.

*Impact on our financial results for 2020.* As discussed in further detail below, during 2020, we experienced decreased earnings compared to 2019, primarily related to the deterioration in the economy caused by the pandemic. While our net interest income increased, due primarily to an increase in the volume of our interest-earning assets, and lower interest rates on deposits resulting from lower prevailing interest rates, we substantially increased our provision for loan losses.

## **Overview**

Through our wholly-owned subsidiary Investar Bank, National Association, we provide full banking services, excluding trust services, tailored primarily to meet the needs of individuals and small to medium-sized businesses. Our primary areas of operation are south Louisiana (approximately 86% of our total deposits as of December 31, 2020), including Baton Rouge, New Orleans, Lafayette, Lake Charles, and their surrounding areas; southeast Texas, including Houston and its surrounding area, Alice, and Victoria; and west Alabama, including York 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 and growth through acquisitions, including whole-bank acquisitions and strategic branch acquisitions. We currently operate 24 full service branches in Louisiana, five full service branches in Texas, and two full service branches in Alabama. We have completed six whole-bank acquisitions since 2011 and regularly review acquisition opportunities. In addition to our branches acquired through acquisitions, during our last three fiscal years, we opened five de novo branch locations.

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

For certain GAAP performance measures, see “Certain Performance Indicators” below. We also monitor changes in our tangible equity, tangible assets, tangible book value per share, and our efficiency ratio, shown in the section “Certain Performance Indicators: Non-GAAP Financial Measures” below.

### Certain Performance Indicators

(In thousands, except share data)

	As of and for the year ended December 31,				
	2020 <sup>(1)</sup>	2019 <sup>(1)</sup>	2018	2017 <sup>(1)</sup>	2016
<b>Financial Information</b>					
Total assets	\$ 2,321,181	\$ 2,148,916	\$ 1,786,469	\$ 1,622,734	\$ 1,158,960
Total stockholders' equity	243,284	241,976	182,262	172,729	112,757
Net interest income	73,534	64,818	57,370	42,517	34,739
Net income	13,889	16,839	13,606	8,202	7,880
Diluted earnings per share	1.27	1.66	1.39	0.96	1.10
<b>Performance Ratios</b>					
Return on average assets	0.61 %	0.85 %	0.81 %	0.62 %	0.71 %
Return on average equity	5.77	8.21	7.68	5.65	6.99
Net interest margin	3.49	3.51	3.61	3.39	3.32
Dividend payout ratio	19.69	13.55	12.09	10.78	3.80
<b>Capital Ratios</b>					
Total equity to total assets	10.48 %	11.26 %	10.20 %	10.64 %	9.73 %
Tangible equity to tangible assets	9.22	9.96	9.20	9.53	9.48

<sup>(1)</sup> Selected consolidated financial data includes the effect of mergers from the date of each merger. On July 1, 2017, the Company acquired Citizens Bancshares, Inc. and its wholly-owned subsidiary, Citizens Bank, by merger with and into the Company and Bank, respectively. On December 1, 2017, the Company acquired BOJ Bancshares, Inc. and its wholly-owned subsidiary, The Highlands Bank, by merger with and into the Company and Bank, respectively. On March 1, 2019, the Company acquired Mainland Bank, by merger with and into the Bank. On November 1, 2019, the Company acquired Bank of York, by merger with and into the Bank. On February 21, 2020, the Company acquired two branches from PlainsCapital Bank by purchase and assumption agreement with and into the Bank. References in this document to assets purchased and liabilities assumed in acquisition transactions reflect the fair value of such assets and liabilities on the date of acquisition, unless the context indicates otherwise.

### Certain Performance Indicators: Non-GAAP Financial Measures

Our accounting and reporting policies conform to accounting principles generally accepted in the United States, or GAAP, and the prevailing practices in the banking industry. However, we also evaluate our performance based on certain additional metrics. The efficiency ratio, tangible book value per share, and the ratio of tangible equity to tangible assets are not financial measures recognized under GAAP and, therefore, are considered non-GAAP financial measures.

Our management, banking regulators, financial analysts and investors use these non-GAAP financial measures to compare the capital adequacy of banking organizations with significant amounts of preferred equity and/or goodwill or other intangible assets, which typically stem from the use of the purchase accounting method of accounting for mergers and acquisitions. Tangible equity, tangible assets, tangible book value per share or related measures should not be considered in isolation or as a substitute for total stockholders' equity, total assets, book value per share or any other measure calculated in accordance with GAAP. Moreover, the manner in which we calculate tangible equity, tangible assets, tangible book value per share and any other related measures may differ from that of other companies reporting measures with similar names. The following table reconciles, as of the dates set forth below, stockholders' equity (on a GAAP basis) to tangible equity and total assets (on a GAAP basis) to tangible assets and calculates both our tangible book value per share and efficiency ratio (dollars in thousands).

	As of and for the year ended December 31,				
	2020	2019	2018	2017	2016
Total stockholders' equity - GAAP	\$ 243,284	\$ 241,976	\$ 182,262	\$ 172,729	\$ 112,757
Adjustments:					
Goodwill	28,144	26,132	17,424	17,086	2,684
Core deposit intangible	3,988	4,803	2,263	2,740	450
Trademark intangible	100	100	100	100	100
<b>Tangible equity</b>	<b>\$ 211,052</b>	<b>\$ 210,941</b>	<b>\$ 162,475</b>	<b>\$ 152,803</b>	<b>\$ 109,523</b>
Total assets - GAAP	\$ 2,321,181	\$ 2,148,916	\$ 1,786,469	\$ 1,622,734	\$ 1,158,960
Adjustments:					
Goodwill	28,144	26,132	17,424	17,086	2,684
Core deposit intangible	3,988	4,803	2,263	2,740	450
Trademark intangible	100	100	100	100	100
<b>Tangible assets</b>	<b>\$ 2,288,949</b>	<b>\$ 2,117,881</b>	<b>\$ 1,766,682</b>	<b>\$ 1,602,808</b>	<b>\$ 1,155,726</b>
<b>Total shares outstanding</b>	<b>10,608,869</b>	<b>11,228,775</b>	<b>9,484,219</b>	<b>9,514,926</b>	<b>7,101,851</b>
Book value per share	\$ 22.93	\$ 21.55	\$ 19.22	\$ 18.15	\$ 15.88
Effect of adjustment	(3.04)	(2.76)	(2.09)	(2.09)	(0.46)
<b>Tangible book value per share</b>	<b>\$ 19.89</b>	<b>\$ 18.79</b>	<b>\$ 17.13</b>	<b>\$ 16.06</b>	<b>\$ 15.42</b>
Total equity to total assets	10.48 %	11.26 %	10.20 %	10.64 %	9.73 %
Effect of adjustment	(1.26)	(1.30)	(1.00)	(1.11)	(0.25)
<b>Tangible equity to tangible assets</b>	<b>9.22 %</b>	<b>9.96 %</b>	<b>9.20 %</b>	<b>9.53 %</b>	<b>9.48 %</b>
<b>Efficiency ratio<sup>(1)</sup></b>					
Noninterest expense	\$ 57,131	\$ 48,168	\$ 41,882	\$ 32,342	\$ 26,639
Net interest income	73,534	64,818	57,370	42,517	34,739
Noninterest income	12,096	6,216	4,318	3,815	5,468
<b>Efficiency ratio</b>	<b>66.72 %</b>	<b>67.81 %</b>	<b>67.89 %</b>	<b>69.80 %</b>	<b>66.25 %</b>

<sup>(1)</sup> Calculated as noninterest expense divided by the sum of net interest income (before provision for loan losses) and noninterest income.

### Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with GAAP requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, income and expenses and related disclosure of contingent assets and liabilities. Although independent third parties are often engaged to assist us in the estimation process, management evaluates the results, challenges assumptions used and considers other factors which could impact these estimates. Actual results may differ from these estimates under different assumptions or conditions.

For more detailed information about our accounting policies, please refer to Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements contained in *Item 8. Financial Statements and Supplementary Data*. The following discussion presents our critical accounting estimates, which are those estimates made in accordance with GAAP that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition or results of operations. We believe that the judgments, estimates and assumptions that we use in the preparation of our consolidated financial statements are appropriate.



**Allowance for Loan Losses.** One of the accounting policies most important to the presentation of our financial statements relates to the allowance for loan losses and the related provision for loan losses. The allowance for loan losses is established as losses are estimated through a provision for loan losses charged to earnings. The allowance for loan losses is based on the amount that management believes will be adequate to absorb probable losses inherent in the loan portfolio based on, among other things, 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 borrowers' ability to pay. Another component of the allowance is losses on loans assessed as impaired under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 310, *Receivables* ("ASC 310"). The balance of the loans determined to be impaired under ASC 310 and the related allowance is included in management's estimation and analysis of the allowance for loan losses. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows.

The determination of the appropriate level of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. We have an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in our portfolio and portfolio segments. We have an internally developed model that requires significant judgment to determine the estimation method that fits the credit risk characteristics of the loans in our 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, 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 our 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.

**Acquisition Accounting.** We account for our acquisitions under ASC Topic 805, *Business Combinations* ("ASC 805"), which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value (which is discussed below). The excess purchase price over the fair value of net assets acquired is recorded as goodwill. If the fair value of the net assets acquired exceeds the purchase price, a bargain purchase gain is recognized.

Because the fair value measurements incorporate assumptions regarding credit risk, no allowance for loan losses related to the acquired loans is recorded on the acquisition date. The fair value measurements of acquired loans are based on estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows. The fair value adjustment is amortized over the life of the loan using the effective interest method.

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.

## Overview of Financial Condition and Results of Operations

Net income for the year ended December 31, 2020 totaled \$13.9 million, or \$1.27 per diluted share, compared to \$16.8 million, or \$1.66 per diluted share, for the year ended December 31, 2019. This represents a \$3.0 million, or a 17.5%, decrease in net income. The decrease can mainly be attributed to the Company's increased provisions for loan losses during 2020, as a result of the impacts of the pandemic. The Company also experienced an increase in noninterest expense.

Key components of the Company's performance during the year ended December 31, 2020 are summarized below.

- Total assets grew to \$2.3 billion at December 31, 2020, an increase of 8.0% from \$2.1 billion at December 31, 2019.
- Total loans, net of allowance for loan losses at December 31, 2020 were \$1.8 billion, an increase of \$158.7 million, or 9.4% compared to \$1.7 billion at December 31, 2019.

- Total deposits were \$1.9 billion at December 31, 2020, an increase of \$180.1 million, or 10.5%, compared to deposits of \$1.7 billion at December 31, 2019. Noninterest-bearing deposits increased \$96.3 million, or 27.4%, to \$448.2 million compared to \$351.9 million at December 31, 2019.
- Net interest income for the year ended December 31, 2020 was \$73.5 million, an increase of \$8.7 million, or 13.4%, compared to \$64.8 million for the year ended December 31, 2019.
- On February 21, 2020, the Bank completed its 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. See further discussion in *Acquisitions* below.

### Certain Events That Affect Year-over-Year Comparability

**COVID-19 Pandemic.** As discussed throughout this report, the COVID-19 pandemic impacted our Company during 2020.

**Acquisitions.** On March 1, 2019, the Company completed the acquisition of Mainland Bank (“Mainland”), a Texas state bank located in Texas City, Texas. The Company acquired 100% of Mainland’s outstanding common shares for approximately \$18.6 million in the form of 763,849 shares of the Company’s common stock. The acquisition of Mainland expanded the Company’s branch footprint into Texas and increased the core deposit base to help position the Company to continue to grow. On the date of acquisition, Mainland had total assets with a fair value of approximately \$127.6 million, \$81.3 million in loans, and \$107.6 million in deposits, and served the residents of Harris and Galveston counties through three branch locations. The Company recorded a core deposit intangible and goodwill of \$2.4 million and \$5.2 million, respectively, related to the acquisition of Mainland.

On November 1, 2019, the Company completed the acquisition of Bank of York, an Alabama state bank located in York, Alabama. All of the issued and outstanding shares of Bank of York common stock were converted into aggregate cash merger consideration of \$15.0 million. The acquisition of Bank of York expanded the Company’s branch footprint into Alabama. On the date of acquisition, Bank of York had total assets with a fair value of \$101.9 million, \$46.1 million in loans, and \$85.0 million in deposits, and served the residents of Sumter County through two branch locations and one loan production office in Tuscaloosa County. The Company recorded a core deposit intangible and goodwill of \$0.9 million and \$5.0 million, respectively, related to the acquisition of Bank of York.

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., for an aggregate consideration of approximately \$11.2 million. 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.

**Debt and Equity Raise.** During the fourth quarter of 2019, we completed both a subordinated debt issuance and a common stock offering. We issued and sold \$25.0 million in fixed-to-floating rate subordinated notes due in 2029. The common stock offering generated net proceeds of \$28.5 million through the issuance of 1.3 million common shares at a price of \$23.25 per share. The proceeds from the subordinated debt issuance and common stock offering were raised for general corporate purposes and potential strategic acquisitions.

### Discussion and Analysis of Financial Condition

Total assets were \$2.3 billion at December 31, 2020, an increase of 8.0% from total assets of \$2.1 billion at December 31, 2019. Our total assets of \$2.1 billion at December 31, 2019 represents a 20.3% increase from total assets of \$1.8 billion at December 31, 2018. The growth experienced since December 31, 2018 can mainly be attributed to growth in loans, \$94.5 million of which is PPP loans originated during 2020, four de novo branch openings, two acquisitions completed in 2019 which added assets with a fair value of \$229.5 million, as well as the acquisition of two branch locations in February 2020 which added assets with a fair value of \$48.8 million.

## Loans

*General.* Loans constitute our most significant asset, comprising 80%, 79%, and 78% of our total assets at December 31, 2020, 2019 and 2018, respectively. Loans increased \$168.3 million, or 9.9%, to \$1.9 billion at December 31, 2020 from \$1.7 billion at December 31, 2019. Loans increased \$291.2 million, or 20.8%, to \$1.7 billion at December 31, 2019 from \$1.4 billion at December 31, 2018.

In the second quarter of 2020, the Bank began participating as a lender in the PPP as established by the CARES Act. At December 31, 2020, the balance, net of repayments, of the Bank's PPP loans originated was \$94.5 million, which is included in the commercial and industrial loan portfolio. Eighty-seven percent of the total number of PPP loans we have originated have principal balances of \$150,000 or less. Excluding PPP loans, total loans increased \$73.8 million, or 4.4%, at December 31, 2020 compared to December 31, 2019.

The table below sets forth the balance of loans outstanding by loan type as of the dates presented, and the percentage of each loan type to total loans (dollars in thousands).

	December 31,									
	2020		2019		2018		2017		2016	
	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans
Mortgage loans on real estate:										
Construction and land development	\$ 206,011	11.1 %	\$ 197,797	11.7 %	\$ 157,946	11.3 %	\$ 157,667	12.5 %	\$ 90,737	10.2 %
1-4 Family	339,525	18.2	321,489	19.0	287,137	20.5	276,922	22.0	177,205	19.8
Multifamily	60,724	3.3	60,617	3.6	50,501	3.6	51,283	4.1	42,759	4.8
Farmland	26,547	1.4	27,780	1.6	21,356	1.5	23,838	1.9	8,207	0.9
Commercial real estate										
Owner-occupied	375,421	20.2	352,324	20.8	298,222	21.3	272,433	21.6	180,458	20.2
Nonowner-occupied	436,974	23.5	378,736	22.4	328,782	23.5	264,931	21.0	200,258	22.4
Commercial and industrial	394,497	21.2	323,786	19.2	210,924	15.0	135,392	10.8	85,377	9.6
Consumer	20,619	1.1	29,446	1.7	45,957	3.3	76,313	6.1	108,425	12.1
Total loans	<u>\$ 1,860,318</u>	<u>100 %</u>	<u>\$ 1,691,975</u>	<u>100 %</u>	<u>\$ 1,400,825</u>	<u>100 %</u>	<u>\$ 1,258,779</u>	<u>100 %</u>	<u>\$ 893,426</u>	<u>100 %</u>

Our focus on a relationship-driven banking strategy and the hiring of experienced commercial lenders are the primary reasons for our organic loan growth. Over the last three fiscal years, we have increased our focus on commercial real estate loans and commercial and industrial loans, including adding and expanding a new Commercial and Industrial division in early 2018. Excluding \$94.5 million of PPP loans outstanding as of December 31, 2020, which are included in our commercial and industrial loan portfolio, we experienced the greatest loan growth in our commercial real estate portfolio from December 31, 2019 to December 31, 2020. In addition, we completed two acquisitions in 2019, as well as the acquisition of two branch locations in February 2020.

The decrease in the consumer loan portfolio during this period is primarily a result of pay-downs of portfolio loans. At December 31, 2020, indirect auto loans made up 22.2% of the consumer loan portfolio. The Company discontinued accepting indirect auto loan applications on December 31, 2015 and expects its consumer loan portfolio as a percentage of the total loan portfolio to continue to decrease over time. At December 31, 2020, the weighted average remaining term of the indirect auto loan portfolio was 1.3 years.

At December 31, 2020, the Company's total business lending portfolio, which consists of loans secured by owner-occupied commercial real estate properties and commercial and industrial loans, was \$769.9 million, an increase of \$93.8 million, or 13.9%, compared to the business lending portfolio of \$676.1 million at December 31, 2019. The business lending portfolio at December 31, 2019 increased \$167.0 million, or 32.8%, compared to \$509.1 million at December 31, 2018. The origination of PPP loans, which are included in the commercial and industrial loan portfolio, was the primary driver of the increase in the business lending portfolio compared to December 31, 2019.

The following table sets forth loans outstanding at December 31, 2020, which, based on remaining scheduled repayments of principal, are due in the periods indicated, as well as the amount of loans with fixed and variable rates in each maturity range. 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.

<i>(dollars in thousands)</i>	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
<b>Mortgage loans on real estate:</b>						
Construction and land development	\$ 143,943	\$ 20,498	\$ 32,544	\$ 8,786	\$ 240	\$ 206,011
1-4 Family	61,081	86,910	43,605	17,681	130,248	339,525
Multifamily	9,101	49,048	2,199	242	134	60,724
Farmland	8,080	9,218	9,152	97	—	26,547
<b>Commercial real estate</b>						
Owner-occupied	44,547	128,834	131,889	53,099	17,052	375,421
Nonowner-occupied	107,020	156,931	152,885	20,138	—	436,974
Commercial and industrial	166,842	187,223	25,630	6,864	7,938	394,497
Consumer	5,351	14,069	838	358	3	20,619
<b>Total loans</b>	<b>\$ 545,965</b>	<b>\$ 652,731</b>	<b>\$ 398,742</b>	<b>\$ 107,265</b>	<b>\$ 155,615</b>	<b>\$ 1,860,318</b>
Amounts with fixed rates	\$ 122,784	\$ 599,740	\$ 329,203	\$ 89,603	\$ 148,501	\$ 1,289,831
Amounts with variable rates	423,181	52,991	69,539	17,662	7,114	570,487
<b>Total loans</b>	<b>\$ 545,965</b>	<b>\$ 652,731</b>	<b>\$ 398,742</b>	<b>\$ 107,265</b>	<b>\$ 155,615</b>	<b>\$ 1,860,318</b>

*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 December 31, 2020 and December 31, 2019, 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 6.6% of our total loan portfolio, or 5.7% excluding PPP loans, at December 31, 2020, as shown below.

Industry	Percentage of Loan Portfolio	Percentage of Loan Portfolio (excluding PPP loans)
Oil and gas	3.3 %	2.6 %
Food services	2.5	2.3
Hospitality	0.4	0.4
Entertainment	0.4	0.4
<b>Total</b>	<b>6.6 %</b>	<b>5.7 %</b>

*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 December 31, 2020, the balance of loans participating in the 90-day deferral program was approximately \$5.9 million, or 0.3% of the total loan portfolio. Of these loans, 57% have deferrals of principal and interest, 40% have deferrals of principal only, and 3% have deferrals of interest only. 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 as a secondary consideration. We also use investment securities as collateral for certain deposits and other types of borrowing. Investment securities represented 12% of our total assets and totaled \$280.8 million at December 31, 2020, an increase of \$6.6 million, or 2.4%, from \$274.2 million at December 31, 2019. The investment securities balance at December 31, 2019 represented a \$9.2 million, or 3.5%, increase from \$265.0 million at December 31, 2018. The increase in investment securities at December 31, 2020 compared to December 31, 2019 and 2018 resulted from purchases of multiple investment types in our current portfolio.

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).

	December 31,					
	2020		2019		2018	
	Balance	Percentage of Portfolio	Balance	Percentage of Portfolio	Balance	Percentage of Portfolio
Obligations of U.S. government agencies and corporations	\$ 36,821	13.1 %	\$ 33,651	12.3 %	\$ 7,870	3.0 %
Obligations of state and political subdivisions	30,362	10.8	42,936	15.7	44,685	16.9
Corporate bonds	27,708	9.8	19,163	6.9	15,509	5.8
Residential mortgage-backed securities	126,807	45.2	106,868	39.0	140,294	52.9
Commercial mortgage-backed securities	59,146	21.1	71,596	26.1	56,689	21.4
Total investment securities	<u>\$ 280,844</u>	<u>100 %</u>	<u>\$ 274,214</u>	<u>100 %</u>	<u>\$ 265,047</u>	<u>100 %</u>

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

Typically, our investment securities are available for sale. There were no purchases of held to maturity securities during the years ended December 31, 2020, 2019 and 2018. In the year ended December 31, 2020, we purchased \$127.1 million of investment securities, compared to purchases of \$110.4 million and \$72.3 million of investment securities during the years ended December 31, 2019 and 2018, respectively. Mortgage-backed securities represented 58%, 65%, and 68% of the available for sale securities we purchased in 2020, 2019 and 2018, respectively. Of the remaining securities purchased in 2020, 2019 and 2018, 22%, 29%, and 25%, respectively, were U.S. government agency securities, while 7%, 4%, and 1%, respectively, were municipal securities. We only purchase corporate bonds that are investment grade securities issued by seasoned corporations.

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 as of December 31, 2020 (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
<b>Held to maturity:</b>								
Obligations of states and political subdivisions	\$ 830	5.88 %	\$ 2,745	5.88 %	\$ 4,650	3.59 %	\$ —	— %
Residential mortgage-backed securities	—	—	—	—	—	—	4,209	2.83
<b>Available for sale:</b>								
Obligations of U.S. government agencies and corporations	73	3.13	2,373	2.34	31,579	2.12	2,623	1.64
Obligations of states and political subdivisions	88	2.96	893	3.06	8,824	2.65	11,845	4.05
Corporate bonds	1,503	3.51	8,393	1.55	16,687	4.52	1,000	1.95
Residential mortgage-backed securities	5	3.00	—	—	335	1.99	119,594	1.36
Commercial mortgage-backed securities	—	—	1,278	2.93	6,734	1.30	50,086	2.11
	<u>\$ 2,499</u>		<u>\$ 15,682</u>		<u>\$ 68,809</u>		<u>\$ 189,357</u>	

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%.

#### **Premises and Equipment**

Bank premises and equipment increased \$5.4 million, or 10.6%, to \$56.3 million at December 31, 2020 from \$50.9 million at December 31, 2019. The increase was mainly attributable to the acquisition of two branch locations in Alice and Victoria, Texas which added \$2.8 million in bank premises and equipment, and the addition of two de novo branches. Bank premises and equipment increased \$10.7 million, or 26.6%, to \$50.9 million at December 31, 2019 from \$40.2 million at December 31, 2018. The increase was mainly attributable to the completion of two acquisitions which added \$3.5 million in bank premises and equipment, the addition of right-of-use assets related to leases of \$3.3 million, and the addition of two de novo branches.

#### **Deferred Tax Asset/Liability**

At December 31, 2020, the net deferred tax asset was \$1.4 million, compared to a net deferred tax liability of \$0.1 million and a net deferred tax asset of \$1.1 million at December 31, 2019 and 2018, respectively. The decrease in the deferred tax liability at December 31, 2019 to a net deferred tax asset at December 31, 2020 was primarily driven by the increased provisioning for loan losses during 2020 compared to 2019. The provision for loan losses is not tax deductible until loans are charged off, causing an increase in the deferred tax asset at December 31, 2020. The decrease in the deferred tax asset to a net deferred tax liability at December 31, 2019 compared to December 31, 2018 is mainly attributable to the increase in the unrealized gain on available for sale (“AFS”) securities during the period.

The Bank acquired net operating loss carryforwards as a result of acquisitions. At December 31, 2020, we held approximately \$0.4 million and \$1.7 million in net operating loss carryforwards that expire in 2033 and 2039, respectively. U.S. tax law imposes annual limitations under Internal Revenue Code Section 382 on the amount of net operating loss carryforwards that may be used to offset federal taxable income. Under these laws, we may apply up to approximately \$0.6 million to offset our taxable income each year. In addition to this limitation, our ability to utilize net operating loss carryforwards depends upon the Company generating taxable income. Given the substantial amount of time before our net operating loss carryforwards begin to expire, we currently expect to utilize these net operating loss carryforwards in full before their expiration.

## Deposits

The following table sets forth the composition of our deposits and the percentage of each deposit type to total deposits at December 31, 2020, 2019 and 2018 (dollars in thousands).

	December 31,					
	2020		2019		2018	
	Amount	Percentage of Total Deposits	Amount	Percentage of Total Deposits	Amount	Percentage of Total Deposits
Noninterest-bearing demand deposits	\$ 448,230	23.7 %	\$ 351,905	20.6 %	\$ 217,457	16.0 %
Interest-bearing demand deposits	496,745	26.3	335,478	19.6	295,212	21.7
Brokered deposits	80,017	4.2	—	—	—	—
Money market deposit accounts	186,307	9.9	198,999	11.7	179,340	13.2
Savings accounts	141,134	7.5	115,324	6.8	104,146	7.6
Time deposits	535,391	28.4	706,000	41.3	565,576	41.5
Total deposits	<u>\$ 1,887,824</u>	<u>100.0 %</u>	<u>\$ 1,707,706</u>	<u>100.0 %</u>	<u>\$ 1,361,731</u>	<u>100.0 %</u>

Total deposits were \$1.9 billion at December 31, 2020, an increase of \$180.1 million, or 10.5%, from total deposits of \$1.7 billion at December 31, 2019. The Company acquired approximately \$37.0 million in deposits from two branch locations acquired from PlainsCapital Bank in February 2020 and utilized \$80.0 million in brokered deposits in the fourth quarter of 2020. The remaining increase of approximately \$63.1 million is due to organic growth. Total deposits at December 31, 2019 increased \$346.0 million, or 25.4%, from total deposits of \$1.4 billion at December 31, 2018. The Company acquired approximately \$85.0 million and \$107.6 million in deposits from Bank of York and Mainland Bank, respectively, in 2019. The remaining increase is due to organic growth.

Noninterest-bearing and interest-bearing demand deposits experienced the largest increases compared to December 31, 2019. These increases were primarily driven by government stimulus payments, 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.

As the state of the economy and financial markets deteriorated during 2020 in response to the global pandemic, customers desired increased security of funds and transferred holdings into fully-insured checking accounts, or our Assured Checking product, shown in interest-bearing demand deposits in the table above. Management also 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, which contributed to our decreased cost of deposits compared to the same period in 2019, discussed in Results of Operations below.

The following table shows the contractual maturities of certificates of deposit and other time deposits greater than \$100,000 at December 31, 2020 and 2019 (dollars in thousands).

Time remaining until maturity:	December 31,			
	2020		2019	
	Certificates of Deposit	Other Time Deposits	Certificates of Deposit	Other Time Deposits
Three months or less	\$ 78,482	\$ 1,733	\$ 89,995	\$ 2,162
Over three months through six months	73,456	2,619	74,759	1,421
Over six months through twelve months	108,901	3,128	198,801	1,852
Over one year through three years	90,101	4,202	90,541	4,954
Over three years	10,529	283	13,935	1,629
	<u>\$ 361,469</u>	<u>\$ 11,965</u>	<u>\$ 468,031</u>	<u>\$ 12,018</u>

## 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 increased \$2.7 million to \$5.7 million at December 31, 2020 from \$3.0 million at December 31, 2019. Our advances from the FHLB were \$120.5 million at December 31, 2020, a decrease of \$11.1 million from FHLB advances of \$131.6 million at December 31, 2019 as we utilized available cash to pay off a portion of advances. We had no outstanding balances drawn on the unsecured lines of credit at December 31, 2020 or 2019. Junior subordinated debt of \$5.9 million at December 31, 2020 and 2019 represents the junior subordinated debentures that we assumed in connection with our acquisitions of BOJ Bancshares, Inc. in 2017 and First Community Bank in 2013.

The average balances and cost of funds of short-term borrowings at December 31, 2020, 2019 and 2018 are summarized in the table below (dollars in thousands).

	Average Balances			Cost of Funds		
	December 31,			December 31,		
	2020	2019	2018	2020	2019	2018
Federal funds purchased and other short-term borrowings	\$ 60,243	\$ 110,603	\$ 126,670	1.15 %	2.09 %	1.84 %
Securities sold under agreements to repurchase	5,080	2,936	18,420	0.30	1.32	0.99
Total short-term borrowings	\$ 65,323	\$ 113,539	\$ 145,090	1.09 %	2.07 %	1.73 %

*2029 Notes.* On November 12, 2019, the Company issued \$25.0 million in aggregate principal amount of its 5.125% Fixed-to-Floating Rate Subordinated 2029 Notes due 2029 (“2029 Notes”) at 100% of their face amount in a private placement to certain institutional and other accredited investors. The 2029 Notes have a maturity date of December 30, 2029. From and including the date of issuance to, but excluding December 30, 2024, the 2029 Notes will bear interest at an initial fixed rate of 5.125% per annum, payable semi-annually in arrears. From and including December 30, 2024 and thereafter, the 2029 Notes will bear interest at a floating rate equal to the then-current three-month LIBOR as calculated on each applicable date of determination, or an alternative rate determined in accordance with the terms of the 2029 Notes if the three-month LIBOR cannot be determined, plus 3.490%, payable quarterly in arrears.

The Company may redeem the 2029 Notes, in whole or in part, on or after December 30, 2024 or, in whole but not in part, under certain limited circumstances set forth in the 2029 Notes. Any redemption by the Company would be at a redemption price equal to 100% of the principal balance being redeemed, together with any accrued and unpaid interest to the date of redemption.

Principal and interest on the 2029 Notes are not subject to acceleration, except upon certain bankruptcy-related events. The 2029 Notes are unsecured, subordinated obligations of the Company and rank junior in right of payment to the Company’s current and future senior indebtedness and to the Company’s obligations to its general creditors. The 2029 Notes are obligations of the Company only and are not obligations of, and are not guaranteed by, any of the Company’s subsidiaries. The 2029 Notes are structured to qualify as Tier 2 capital for regulatory capital purposes.

*2027 Notes.* On March 24, 2017, the Company issued \$18.6 million in aggregate principal amount of its 6.00% Fixed-to-Floating Rate Subordinated Notes due 2027 (the “2027 Notes”), at 100% of the aggregate principal amount of the 2027 Notes in an offering registered under the Securities Act of 1933, as amended.

The 2027 Notes will mature on March 30, 2027. From and including the date of issuance, but excluding March 30, 2022, the 2027 Notes will bear interest at an initial fixed rate of 6.00% per annum, payable semi-annually. From and including March 30, 2022 and thereafter, the 2027 Notes will bear interest at a floating rate equal to the then-current three-month LIBOR (but not less than zero) as calculated on each applicable date of determination, plus 3.945%, payable quarterly.

Principal and interest on the 2027 Notes are not subject to acceleration, except upon certain bankruptcy-related events. The 2027 Notes are unsecured subordinated obligations of the Company. The 2027 Notes are subordinated in right of payment to the payment of the Company’s existing and future senior indebtedness, including all of its general creditors. The 2027 Notes are obligations of the Company only and are not obligations of, and are not guaranteed by, any of the Company’s subsidiaries. The



Company may, beginning with the interest payment date of March 30, 2022, and on any interest payment date thereafter, redeem the 2027 Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2027 Notes to be redeemed plus accrued and unpaid interest to but excluding the date of redemption. The 2027 Notes are structured to qualify as Tier 2 capital for regulatory capital purposes.

## Results of Operations

### *Performance Summary*

*2020 vs. 2019.* For the year ended December 31, 2020, net income was \$13.9 million, or \$1.27 per basic and diluted common share, compared to net income of \$16.8 million, or \$1.68 per basic common share and \$1.66 per diluted common share, for the year ended December 31, 2019. The primary drivers of the decrease in net income are related to the state of the economy and financial markets during the year ended December 31, 2020 resulting from the pandemic, along with an increase in noninterest expenses primarily related to our growth. As shown on the consolidated statement of income for the year ended December 31, 2020, a provision for loan losses of \$11.2 million was recorded, primarily attributable to the COVID-19 pandemic, compared to a provision for loan losses of \$1.9 million for the year ended December 31, 2019. Return on average assets decreased to 0.61% for the year ended December 31, 2020 from 0.85% for the year ended December 31, 2019. Return on average equity was 5.77% for the year ended December 31, 2020 compared to 8.21% for the year ended December 31, 2019. The decrease in both return on average assets and return on average equity is mainly attributable to the \$2.9 million decrease in net income.

*2019 vs. 2018.* For the year ended December 31, 2019, net income was \$16.8 million, or \$1.68 per basic common share and \$1.66 per diluted common share, compared to net income of \$13.6 million, or \$1.41 per basic common share and \$1.39 per diluted common share, for the year ended December 31, 2018. The increases in basic and diluted earnings per common share and net income were primarily driven by an increase in net interest income resulting from both organic loan growth and loans acquired during 2019, as well as an increase in the yields on interest-earning assets, offset, in part, by an increase in the cost of funds. The increase in net interest income was partially offset by an increase in noninterest expense. Return on average assets increased to 0.85% for the year ended December 31, 2019 from 0.81% for the year ended December 31, 2018. Return on average equity was 8.21% for the year ended December 31, 2019 compared to 7.68% for the year ended December 31, 2018. The increase in both return on average assets and return on average equity is mainly attributable to the \$3.2 million increase in net income.

### *Net Interest Income and Net Interest Margin*

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors affecting the level of net interest income include the volume of earning assets and interest-bearing liabilities, yields earned on loans and investments and rates paid on deposits and other borrowings, the level of nonperforming loans, the amount of noninterest-bearing liabilities supporting earning assets, and the interest rate environment.

The primary factors affecting net interest margin are changes in interest rates, competition, and the shape of the interest rate yield curve. The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. Since December 31, 2015, the Federal Funds target rate had increased a total of 175 basis points and remained at 2.25% to 2.50%, as of December 19, 2018, until it was lowered to 2.00 to 2.25% on July 31, 2019. The Federal Reserve further reduced the rate by 25 basis points on both September 18, 2019 to 1.75 to 2.00% and October 30, 2019 to 1.50 to 1.75%. 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. In a measure aimed at lessening the economic impact of COVID-19, the Federal Reserve reduced the federal funds target rate to 0% to 0.25% on March 16, 2020, where it remained as of March 10, 2021.

*2020 vs. 2019.* Net interest income increased 13.4% to \$73.5 million for the year ended December 31, 2020 from \$64.8 million for the same period in 2019. Net interest margin was 3.49% for the year ended December 31, 2020, a decrease of two basis points from 3.51% for the year ended December 31, 2019. The increase in net interest income resulted from an increase in the volume of interest-earning assets, and a decrease in the rates paid on interest-bearing liabilities, partially offset by a decrease in the yield earned on interest-earnings assets and increase in the volume of interest-bearing liabilities. For the year ended December 31, 2020, average loans and average investment securities increased approximately \$246.4 million and \$7.9 million, respectively, while average interest-bearing deposits increased approximately \$139.4 million. The increases in average loans, investment securities and interest-bearing deposits was driven by both organic growth and growth through the acquisitions of Bank of York on November 1, 2019 and two branch locations of PlainsCapital Bank on February 21, 2020. Demand deposit

growth also was driven by the pandemic-related factors discussed above. Average total borrowings decreased approximately \$18.1 million compared to the same period in 2019 as we used available cash to pay down a portion of advances from the FHLB. Our yield on interest-earning assets declined as did our rate paid on interest-bearing liabilities primarily as a result of the overall decline in prevailing interest rates.

Interest income was \$93.8 million for the year ended December 31, 2020 compared to \$89.4 million for the same period in 2019. Loan interest income made up substantially all of our interest income for the years ended December 31, 2020 and 2019. Interest on our commercial real estate loans, commercial and industrial loans, and one-to-four family residential real estate loans constituted the three largest components of our loan interest income for the years ended December 31, 2020 and 2019 at 83% and 81% of total interest income on loans, respectively. The overall yield on interest-earning assets decreased 39 basis points to 4.45% for the year ended December 31, 2020 compared to 4.84% for the same period in 2019. The loan portfolio yielded 4.89% for the year ended December 31, 2020 compared to 5.26% for the year ended December 31, 2019. The PPP loans originated in 2020 have a contractual interest rate of 1% and origination fees based on the loan amount, which contributed to the decline in the yield on our portfolio. In addition, the yield on the investment portfolio was 2.00% for the year ended December 31, 2020 compared to 2.73% for the year ended December 31, 2019.

Interest expense was \$20.3 million for the year ended December 31, 2020, a decrease of \$4.4 million compared to interest expense of \$24.6 million for the year ended December 31, 2019. While there was an increase in the volume of interest-bearing liabilities, the decrease in interest expense is mainly attributable to the decrease in the rate paid for these liabilities for the year ended December 31, 2020 compared to December 31, 2019. As previously mentioned, the federal funds target rate decreased to 0% to 0.25% on March 15, 2020, which affects the rate the Company pays for immediately available overnight funds, long-term borrowings, and deposits. For the year ended December 31, 2020, the cost of interest-bearing deposits decreased 43 basis points to 1.10% and the cost of interest-bearing liabilities decreased 40 basis points to 1.27% compared to the same period in 2019.

*2019 vs. 2018.* For a detailed discussion of our net interest income and net interest margin performance for 2019 compared to 2018, see our annual report on Form 10-K for the year ended December 31, 2019, *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Net Interest Income and Net Interest Margin – 2019 vs. 2018, and – Volume/Rate Analysis.*

*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 as of and for the years ended December 31, 2020, 2019 and 2018. Averages presented below are daily averages (dollars in thousands).

	As of and for the year ended December 31,								
	2020			2019			2018		
	Average Balance	Interest Income/Expense <sup>(1)</sup>	Yield/ Rate <sup>(1)</sup>	Average Balance	Interest Income/Expense <sup>(1)</sup>	Yield/ Rate <sup>(1)</sup>	Average Balance	Interest Income/Expense <sup>(1)</sup>	Yield/ Rate <sup>(1)</sup>
<b>Assets</b>									
Interest-earning assets:									
Loans	\$ 1,786,302	\$ 87,365	4.89 %	\$ 1,539,886	\$ 80,954	5.26 %	\$ 1,306,264	\$ 66,750	5.11 %
Securities:									
Taxable	255,405	4,927	1.93	240,751	6,650	2.76	222,948	5,793	2.60
Tax-exempt	25,024	686	2.74	31,780	790	2.49	34,159	815	2.39
Interest-earning balances with banks	42,852	816	1.90	34,905	1,049	3.00	24,126	533	2.21
Total interest-earning assets	2,109,583	93,794	4.45	1,847,322	89,443	4.84	1,587,497	73,891	4.65
Cash and due from banks	27,768			22,969			17,219		
Intangible assets	32,190			26,107			19,927		
Other assets	119,994			90,949			73,472		
Allowance for loan losses	(15,272)			(9,969)			(8,491)		
Total assets	\$ 2,274,263			\$ 1,977,378			\$ 1,689,624		
<b>Liabilities and stockholders' equity</b>									
Interest-bearing liabilities:									
Deposits:									
Interest-bearing demand	\$ 612,000	\$ 3,535	0.58 %	\$ 510,148	\$ 5,308	1.04 %	\$ 394,336	\$ 3,206	0.81 %
Brokered Deposits	20,308	177	0.87	—	—	—	—	—	—
Savings deposits	129,211	401	0.31	110,936	501	0.45	116,544	567	0.49
Time deposits	640,549	11,263	1.76	641,630	13,498	2.10	530,881	7,621	1.44
Total interest-bearing deposits	1,402,068	15,376	1.10	1,262,714	19,307	1.53	1,041,761	11,394	1.09
Short-term borrowings	65,323	710	1.09	113,539	2,348	2.07	145,090	2,511	1.73
Long-term debt	128,163	4,174	3.26	98,017	2,970	3.03	95,692	2,616	2.73
Total interest-bearing liabilities	1,595,554	20,260	1.27	1,474,270	24,625	1.67	1,282,543	16,521	1.29
Noninterest-bearing deposits	418,240			283,274			220,068		
Other liabilities	19,805			14,717			9,817		
Stockholders' equity	240,664			205,117			177,196		
Total liabilities and stockholders' equity	\$ 2,274,263			\$ 1,977,378			\$ 1,689,624		
Net interest income/net interest margin		\$ 73,534	3.49 %		\$ 64,818	3.51 %		\$ 57,370	3.61 %

<sup>(1)</sup> 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.

Nonaccrual loans were included in the computation of average loan balances but carry a zero yield. The yields include the effect of loan fees of \$2.4 million, \$1.9 million and \$2.1 million for the years ended December 31, 2020, 2019 and 2018, respectively, and discounts and premiums that are amortized or accreted to interest income or expense.

*Volume/Rate Analysis.* The following table sets forth a summary of the changes in interest earned and interest paid resulting from changes in volume and rates for the year ended December 31, 2020 compared to the year ended December 31, 2019 (dollars in thousands):

	Year ended December 31, 2020 vs. Year ended December 31, 2019		
	Volume	Rate	Net <sup>(1)</sup>
<b>Interest income:</b>			
Loans	\$ 12,954	\$ (6,543)	\$ 6,411
Securities:			
Taxable	405	(2,128)	(1,723)
Tax-exempt	(168)	64	(104)
Interest-earning balances with banks	239	(472)	(233)
Total interest-earning assets	13,430	(9,079)	4,351
<b>Interest expense:</b>			
Interest-bearing demand deposits	1,060	(2,833)	(1,773)
Brokered deposits	—	177	177
Savings deposits	82	(182)	(100)
Time deposits	(23)	(2,212)	(2,235)
Short-term borrowings	(997)	(641)	(1,638)
Long-term debt	913	291	1,204
Total interest-bearing liabilities	1,035	(5,400)	(4,365)
Change in net interest income	\$ 12,395	\$ (3,679)	\$ 8,716

<sup>(1)</sup> 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 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.

*2020 vs. 2019.* Total noninterest income increased \$5.9 million, or 94.6%, to \$12.1 million for the year ended December 31, 2020 compared to \$6.2 million for the year ended December 31, 2019. The increase is primarily due to the \$3.6 million increase in other operating income and the \$2.0 million increase in the gain on sale of investment securities.

Other operating income is the largest component of our noninterest income for the year ended December 31, 2020. Other operating income includes, among other things, credit card, ATM and wire fees, derivative fee income, and rental income. The \$3.6 million increase in other operating income for the year ended December 31, 2020 is primarily attributable to a \$2.8 million increase in derivative fee income compared to the year ended December 31, 2019. We also experienced an increase in rental income of \$0.2 million due to the Company's purchase in May 2020 of the first floor of its corporate headquarters, which has multiple tenants.

Service charges on deposit accounts include maintenance fees on accounts, account enhancement charges for additional deposit account features, per item charges, overdraft fees, and treasury management charges. Service charges on deposit accounts increased 4.2% to \$1.9 million for the year ended December 31, 2020 compared to \$1.8 million for the same period in 2019.

Gain on the sale of investment securities for the year ended December 31, 2020 increased to \$2.3 million from \$0.3 million for the same period in 2019. We sold approximately \$56.5 million in securities during the year ended December 31, 2020 compared to sales of \$65.6 million during the year ended December 31, 2019.

Servicing fees and fee income on serviced loans decreased \$0.2 million, or 36.1%, to \$0.4 million, for the year ended December 31, 2020. This decrease is a result of the Bank exiting the indirect auto loan origination business at the end of 2015. Since the Bank did not originate auto loans for sale during the years ended December 31, 2020 and 2019, the servicing portfolio, which experienced regularly scheduled paydowns, was not replaced with new loans. We expect servicing fees and fee income on serviced loans to decrease over time until all serviced loans are paid off. At December 31, 2020, the weighted average remaining term of the indirect auto loan portfolio was 1.3 years.

Interchange fees, which are fees earned on the usage of the Bank's credit and debit cards, increased \$0.3 million, or 26.9%, to \$1.4 million for year ended December 31, 2020 from \$1.1 million for same period in 2019. The increase in interchange fees can primarily be attributed to the increase in the volume of debit and credit card transactions.

Income from bank owned life insurance increased \$0.2 million to \$0.9 million for the year ended December 31, 2020 from \$0.7 million for the same period in 2019. This increase reflects increased interest earned on the Company's bank owned life insurance policies.

Change in the fair value of equity securities for the year ended December 31, 2020 was a decrease of \$0.1 million and represents the change in the fair value of marketable equity securities that, prior to January 1, 2018, were included as AFS investment securities in the Company's consolidated balance sheet. With the adoption of ASU 2016-01 on January 1, 2018, equity securities can no longer be classified as AFS, and, therefore, marketable equity securities are disclosed as equity securities on the balance sheet with changes in the fair value reflected in noninterest income.

*2019 vs. 2018.* For a detailed discussion of our noninterest income for 2019 compared to 2018, see our annual report on Form 10-K for the year ended December 31, 2019, *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Noninterest Income – 2019 vs. 2018.*

### ***Noninterest Expense***

Noninterest expense includes salaries and benefits and other costs associated with the conduct of our operations. We are committed to managing our costs within the framework of our operating strategy. However, since we are focused on growth both organically and through acquisition, we expect our expenses to continue to increase as we add employees and physical locations to accommodate our growing franchise. Our goal is to create synergies promptly after completing an acquisition, as this is important to our earnings success.

*2020 vs. 2019.* Total noninterest expense was \$57.1 million for the year ended December 31, 2020, an increase of \$9.0 million, or 18.6%, from \$48.2 million for the year ended December 31, 2019. This increase was driven by the increases in salaries and employee benefits, depreciation and amortization, and other operating expenses.

Salaries and employee benefits increased \$4.7 million, or 16.5%, to \$33.4 million for the year ended December 31, 2020, compared to \$28.6 million for the year ended December 31, 2019. The increase in salaries and employee benefits is mainly attributable to the increased number of employees as a result of our growth, both organically and through acquisitions. The Company completed the acquisitions of Mainland Bank in March 2019 and Bank of York in November 2019, which added five branch locations and related staff during the year ended December 31, 2019. The Bank also added staff when it opened two de novo branches in October and December 2019. In addition, the Bank acquired two branch locations from PlainsCapital Bank in February 2020 and opened two de novo branches in July and November 2020. Further, as a result of the success of the PPP loan program, the Bank paid a \$0.2 million incentive in the fourth quarter of 2020 to recognize the efforts of Bank employees.

Depreciation and amortization increased \$1.1 million, or 32.0%, to \$4.6 million for the year ended December 31, 2020, compared to \$3.5 million for the year ended December 31, 2019. The increase in depreciation and amortization was driven by the addition of approximately \$2.8 million in fixed assets acquired from PlainsCapital, as well as various projects throughout the year, including equipment upgrades at acquired branches, opening of a free-standing interactive teller machine in Morgan City, Louisiana in August 2020, and the addition of two de novo branches in July and November 2020.

Other operating expenses include security, business development, FDIC and OCC assessments, bank shares and property taxes, charitable contributions, repair and maintenance costs, personnel training and development, filing fees, and other costs related to the operation of our business. Other operating expenses increased \$2.6 million, or 31.7%, to \$11.0 million for the year ended December 31, 2020 from \$8.3 million for the same period in 2019. The increase in other operating expenses was primarily related to increases in software and telephone expenses, and FDIC and OCC assessment fees.

Data processing increased \$0.7 million, or 30.0%, to \$3.1 million for the year ended December 31, 2020 from \$2.4 million for the same period in 2019. The increase is mainly attributable to the Bank's investments in multiple technology enhancements for our customers such as teller capture, Zelle®, and Business Electronic Banking for our more complex business customers' banking needs. We also experienced an increase in customers due to organic growth, including new PPP customers, and growth from acquisitions.

Occupancy expense increased \$0.4 million, or 21.7% to \$2.2 million for the year ended December 31, 2020 from \$1.8 million for the year ended December 31, 2019. This increase is primarily attributable to building rent, as the Bank acquired leases for the two branch locations acquired from PlainsCapital in February 2020.

*2019 vs. 2018.* For a detailed discussion of our noninterest expense for 2019 compared to 2018, see our annual report on Form 10-K for the year ended December 31, 2019, *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Noninterest Expense – 2019 vs. 2018.*

### **Income Tax Expense**

Income tax expense for the years ended December 31, 2020, 2019 and 2018 was \$3.5 million, \$4.1 million, and \$3.6 million, respectively. The effective tax rates for the years ended December 31, 2020, 2019 and 2018 were 19.9%, 19.7%, and 21.1%, respectively. The effective tax rate differs from the statutory rate of 21% primarily due to tax exempt interest income earned on certain investment securities and bank owned life insurance, and in 2018, a \$0.3 million charge related to the Tax Cuts and Jobs Act.

### **Risk Management**

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

#### ***Credit Risk and the Allowance for Loan Losses***

*General.* The risk of loss should a borrower default on a loan is inherent in any lending activity. Our portfolio and related credit risk are monitored and managed on an ongoing basis by our risk management department, the board of directors' loan committee and the full board of directors. We utilize a 10 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 (Loan grades 1-6)*—Loans not meeting the criteria below are considered pass. These loans have high credit characteristics and financial strength. The borrowers at least generate profits and cash flow that are in line with peer and industry standards and have debt service coverage ratios above loan covenants and our policy guidelines. For some of these loans, a guaranty from a financially capable party mitigates characteristics of the borrower that might otherwise result in a lower grade.
- *Special Mention (grade 7)*—Loans classified as special mention possess some credit deficiencies that need to be corrected to avoid a greater risk of default in the future. For example, financial ratios relating to the borrower may have deteriorated. Often, a special mention categorization is temporary while certain factors are analyzed or matters addressed before the loan is re-categorized as either pass or substandard.
- *Substandard (grade 8)*—Loans 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 (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 December 31, 2020 and December 31, 2019, there were no loans classified as loss, while there were \$0.9 million and \$0.1 million, respectively, of loans classified as doubtful, \$20.1 million and \$8.7 million, respectively, of loans classified as substandard, and \$16.9 million and \$4.4 million, respectively, of loans classified as special mention as of such dates. Of our aggregate \$37.9 million and \$13.2 million doubtful, substandard and special mention loans at December 31, 2020 and December 31, 2019, respectively, \$8.4 million and \$7.1 million, respectively, were acquired and marked to fair value at the time of their acquisition. At December 31, 2018, we had no loans classified as loss, and we had doubtful, substandard and special mention loans of \$0.1 million, \$9.5 million and \$0.2 million, respectively.

An independent loan review is conducted annually, whether internally or externally, on at least 40% of commercial loans utilizing a risk-based approach designed to maximize the effectiveness of the review. Internal loan review is independent of the loan underwriting and approval process. In addition, credit analysts periodically review certain commercial loans to identify negative financial trends related to any one borrower, any related groups of borrowers or an industry. All loans not categorized as pass are put on an internal watch list, with quarterly reports to the board of directors. In addition, a written status report is maintained by our special assets division for all commercial loans categorized as substandard or worse. We use this information in connection with our collection efforts.

If our collection efforts are unsuccessful, collateral securing loans may be repossessed and sold or, for loans secured by real estate, foreclosure proceedings initiated. The collateral is sold at public auction for fair market value (based upon recent appraisals), 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 Topic 450, *Contingencies*. Collective impairment is calculated based on loans grouped by grade. Another component of the allowance is losses on loans assessed as impaired under ASC 310. 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 the borrower’s 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 December 31, 2020, an increase compared to \$10.7 million at December 31, 2019 and \$9.5 million at December 31, 2018. The primary reason for the increase in the allowance for loan losses at December 31, 2020 compared to prior years is the change in economic conditions in response to the COVID-19 pandemic.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Determination of impairment is treated the same across all classes of loans. Impairment is measured on a loan-by-loan basis for, among others, all loans of \$500,000 or greater, nonaccrual loans and a sample of loans between \$250,000 and \$500,000. When we identify a loan as impaired, we measure the extent of the impairment based on the present value of expected future cash flows, discounted at the loan’s effective interest rate, except when the sole (remaining) source of repayment for the loans is the operation or liquidation of the collateral. In these cases when foreclosure is probable, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. For real estate collateral, the fair value of the collateral is based upon a recent appraisal by a qualified and licensed appraiser. If we determine that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), we recognize impairment through an allowance estimate or a charge-off recorded against the allowance. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual, contractual interest is credited to interest income when received, under the cash basis method.

Impaired loans at December 31, 2020, which include all TDRs and nonaccrual loans individually evaluated for impairment for purposes of determining the allowance for loan losses, were \$19.2 million compared to \$2.5 million at December 31, 2019, and \$3.3 million at December 31, 2018. At December 31, 2020 and December 31, 2019, \$0.2 million and \$0.1 million, respectively, of the allowance for loan losses were specifically allocated to impaired loans, while \$0.2 million of the allowance was specifically allocated to such loans at December 31, 2018.

The provision for loan losses is a charge to income 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 years ended December 31, 2020, 2019 and 2018, the provision for loan losses was \$11.2 million, \$1.9 million, and \$2.6 million, respectively. Additional provision for loan losses was recorded in the year ended December 31, 2020 primarily as a result of the deterioration of market conditions which have been adversely affected by the COVID-19 pandemic. Although we have not yet experienced charge-offs directly related to the 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 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. If future cash flows are not reasonably estimable, the Company accounts for the acquired loans using the cash basis method. 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. We did not increase the allowance for loan losses for loans accounted for under ASC 310-30 during 2019 or 2018. 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.

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

	December 31,				
	2020	2019	2018	2017	2016
Mortgage loans on real estate:					
Construction and development	\$ 2,375	\$ 1,201	\$ 1,038	\$ 945	\$ 579
1-4 Family	3,370	1,490	1,465	1,287	1,377
Multifamily	589	387	331	332	355
Farmland	435	101	81	60	60
Commercial real estate	8,496	4,424	4,182	3,599	2,499
Commercial and industrial	4,558	2,609	1,641	693	759
Consumer	540	488	716	975	1,422
<b>Total</b>	<b>\$ 20,363</b>	<b>\$ 10,700</b>	<b>\$ 9,454</b>	<b>\$ 7,891</b>	<b>\$ 7,051</b>

The following table presents the amount of the allowance for loan losses allocated to each loan category as a percentage of total loans as of the dates indicated (dollars in thousands).

	December 31,				
	2020	2019	2018	2017	2016
Mortgage loans on real estate:					
Construction and development	0.13 %	0.07 %	0.07 %	0.07 %	0.06 %
1-4 Family	0.18	0.09	0.10	0.10	0.15
Multifamily	0.03	0.02	0.02	0.03	0.04
Farmland	0.02	0.01	0.01	—	0.01
Commercial real estate	0.46	0.26	0.30	0.29	0.28
Commercial and industrial	0.25	0.15	0.12	0.06	0.09
Consumer	0.02	0.03	0.05	0.08	0.16
<b>Total</b>	<b>1.09 %</b>	<b>0.63 %</b>	<b>0.67 %</b>	<b>0.63 %</b>	<b>0.79 %</b>



As discussed above, the balance in the allowance for loan losses is principally influenced by the provision for loan losses and by net loan loss experience. Additions to the allowance are charged to the provision for loan losses. Losses are charged to the allowance as incurred and recoveries on losses previously charged to the allowance are credited to the allowance at the time recovery is collected.

The table below reflects the activity in the allowance for loan losses for the periods indicated (dollars in thousands).

	Year ended December 31,				
	2020	2019	2018	2017	2016
Allowance at beginning of period	\$ 10,700	\$ 9,454	\$ 7,891	\$ 7,051	\$ 6,128
Provision for loan losses	11,160	1,908	2,570	1,540	2,079
Charge-offs:					
Mortgage loans on real estate:					
Construction and development	—	(51)	(24)	—	(27)
1-4 Family	(173)	(62)	(167)	—	(57)
Commercial real estate	(51)	(24)	—	—	(526)
Commercial and industrial	(1,195)	(252)	(481)	(270)	—
Consumer	(335)	(411)	(513)	(495)	(618)
Total charge-offs	(1,754)	(800)	(1,185)	(765)	(1,228)
Recoveries					
Mortgage loans on real estate:					
Construction and development	47	27	12	34	14
1-4 Family	74	27	29	7	13
Commercial real estate	8	1	—	—	1
Commercial and industrial	50	26	55	—	20
Consumer	78	57	82	24	24
Total recoveries	257	138	178	65	72
Net charge-offs	(1,497)	(662)	(1,007)	(700)	(1,156)
Balance at end of period	\$ 20,363	\$ 10,700	\$ 9,454	\$ 7,891	\$ 7,051
Net charge-offs to:					
Loans - average	0.08 %	0.04 %	0.08 %	0.07 %	0.14 %
Allowance for loan losses	7.35 %	6.19 %	10.65 %	8.87 %	16.39 %
Allowance for loan losses to:					
Total loans	1.09 %	0.63 %	0.67 %	0.63 %	0.79 %
Nonperforming loans	147 %	171 %	159 %	214 %	356 %

The allowance for loan losses to total loans increased to 1.09% at December 31, 2020 compared to 0.63% at December 31, 2019 while the allowance for loan losses to nonperforming loans ratio decreased to 147% at December 31, 2020 from 171% at December 31, 2019. The increase in the allowance for loan losses to total loans at December 31, 2020 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 December 31, 2019. The decrease in the allowance for loan losses to nonperforming loans is due to the increase in nonperforming loans. Nonperforming loans were \$13.8 million, or 0.74% of total loans, at December 31, 2020, an increase of \$7.5 million compared to \$6.3 million, or 0.37% of total loans, at December 31, 2019.

Charge-offs reflect the realization of losses in the portfolio that were recognized previously through the provision for loan losses. Net charge-offs for the year ended December 31, 2020 were \$1.5 million, or 0.08% of the average loan balance. Net charge-offs for the years ended December 31, 2019 and 2018 were \$0.7 million and \$1.0 million respectively, equal to 0.04% and 0.08%, respectively, of the average loan balance for the respective periods. For the year ended December 31, 2020, the largest category of charge-offs was commercial and industrial loans. For the years ended December 31, 2019 and 2018, the largest category of charge-offs was consumer loans. Net charge-offs of commercial and industrial loans as a percentage of the average commercial and industrial loan portfolio for the year ended December 31, 2020 was 0.3%. Net charge-offs of consumer loans as a percentage of average consumer loans for the years ended December 31, 2019 and 2018 were 1.1% and 0.7%, respectively.

Management believes the allowance for loan losses at December 31, 2020 is sufficient to provide adequate protection against losses in our portfolio. Although the allowance for loan losses is considered adequate by management, there can be no assurance that this allowance will prove to be adequate over time to cover ultimate losses in connection with our loans. This allowance may prove to be inadequate due to unanticipated adverse changes in the economy or discrete events, such as the COVID-19 pandemic, adversely affecting specific customers or industries. Our results of operations and financial condition could be materially adversely affected to the extent that the allowance is insufficient to cover such changes or events.

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

Another category of assets which contributes to our credit risk is troubled debt restructurings, or restructured loans (“TDR”). A TDR 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 subsequently performs 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 loans reach 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. TDRs 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 34 loans classified as TDRs at December 31, 2020 that totaled approximately \$14.7 million, compared to 18 credits totaling \$1.5 million at December 31, 2019. Twelve of the restructured loans were considered TDRs due to modification of terms through adjustments to maturity, eleven 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, three 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. At December 31, 2020, none of the TDRs were in default of their modified terms and included in nonaccrual loans. At December 31, 2019, two of the TDRs were in default of their modified terms and were included in nonaccrual loans. At December 31, 2020 and 2019, there were no available balances on loans classified as TDRs that the Company was committed to lend. 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).

	December 31,				
	2020	2019	2018	2017	2016
Nonaccrual loans	\$ 13,506	\$ 5,490	\$ 5,891	\$ 3,547	\$ 1,978
Accruing loans past due 90 days or more	321	795	58	134	1
Total nonperforming loans	13,827	6,285	5,949	3,681	1,979
TDRs	8,017	1,020	1,248	1,621	2,399
Total nonperforming and restructured loans	\$ 21,844	\$ 7,305	\$ 7,197	\$ 5,302	\$ 4,378
Interest income recognized on nonperforming and restructured loans	\$ 757	\$ 144	\$ 315	\$ 185	\$ 169
Interest income foregone on nonperforming and restructured loans	\$ 455	\$ 300	\$ 164	\$ 104	\$ 159

Nonperforming loans are comprised of accruing loans past due 90 days or more and nonaccrual loans. Nonperforming loans outstanding represented 0.74%, 0.37%, and 0.42% of total loans at December 31, 2020, 2019 and 2018, respectively.

*Other Real Estate Owned.* Other real estate owned consists of properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure, as well as any properties owned by the Company that are not intended to be used to carry out its operations. 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 against the allowance for loan losses. Other real estate owned with a cost basis of \$0.1 million and \$5.1 million was sold during the years ended December 31, 2020 and 2019, respectively, resulting in a net gain of \$12,000 and \$2,000 for the respective periods, compared to a cost basis of \$0.1 million and a net loss of \$24,000 for the year ended December 31, 2018.

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

	December 31, 2020	December 31, 2019
1-4 Family	28	133
Commercial real estate	635	—
Total other real estate owned	\$ 663	\$ 133

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

	Year ended December 31, 2020	Year ended December 31, 2019
Balance, beginning of period	\$ 133	\$ 3,611
Additions	41	181
Transfers from bank premises and equipment	665	—
Acquired other real estate owned	—	1,507
Sales of other real estate owned	(146)	(5,148)
Write-downs	(30)	(18)
Balance, end of period	\$ 663	\$ 133

### **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.

Since the impact of rate changes due to mismatched balance sheet positions in the short-term can quickly and materially affect the current year's income statement, they require constant monitoring and management.

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, four to six months, seven to twelve 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 December 31, 2020, the Bank was within the policy guidelines for asset/liability management.

The following table depicts the estimated impact on net interest income of immediate changes in interest rates at the specified levels for the periods presented.

As of December 31, 2020	
Changes in Interest Rates (in basis points)	Estimated Increase/Decrease in Net Interest Income <sup>(1)</sup>
+300	5.8%
+200	4.3%
+100	2.8%
-100	(1.5)%

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

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

## Liquidity and Capital Resources

*Liquidity.* Liquidity is a measure of the ability to fund loan commitments and meet deposit maturities and withdrawals in a timely and cost-effective way. Cash flow requirements can be met by generating net income, attracting new deposits, converting assets to cash or borrowing funds. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows, loan prepayments, 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 December 31, 2020 and 2019, 69% and 68% of our total assets, respectively, were funded by core deposits.

Our investment portfolio is another alternative for meeting our cash flow requirements. Investment securities generate cash flow through principal payments and maturities, and they generally have readily available markets that allow for their conversion to cash. Some securities are pledged to secure certain deposit types or short-term borrowings (such as FHLB advances), which impacts their liquidity. At December 31, 2020, securities with a carrying value of \$84.6 million were pledged to secure deposits or borrowings, compared to \$89.5 million in pledged securities at December 31, 2019.

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 December 31, 2020, the balance of our outstanding advances with the FHLB was \$120.5 million, a decrease from \$131.6 million at December 31, 2019. The total amount of the remaining credit available to us from the FHLB at December 31, 2020 was \$654.9 million. At December 31, 2020, our FHLB borrowings were collateralized by approximately \$775.7 million of the Company's loan portfolio and \$9.0 million of the Company's investment securities.

Repurchase agreements are contracts for the sale of securities which we own with a corresponding agreement to repurchase those securities at an agreed upon price and date. Our policies limit the use of repurchase agreements to those collateralized by U.S. Treasury and agency securities. We had \$5.7 million of repurchase agreements outstanding at December 31, 2020, compared to \$3.0 million at December 31, 2019.

We maintain unsecured lines of credit with FNBB and TIB totaling \$60.0 million. These lines of credit are Fed Funds lines of credit and are used for overnight borrowing only. There were no outstanding balances on our unsecured lines of credit at December 31, 2020 or 2019.

In addition, at December 31, 2020 and 2019 we had \$43.6 million in aggregate principal amount of subordinated debt outstanding, respectively. For additional information, see Note 11 in the Notes to Consolidated Financial Statements contained in *Item 8. Financial Statements and Supplementary Data*, and see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Discussion and Analysis of Financial Condition – Borrowings*.

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. As of 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, to address liquidity needs when rates on such deposits compare favorably with deposit rates in our markets. At December 31, 2020, we held \$123.1 million of QwickRate® deposits, an increase compared to \$101.8 million at December 31, 2019.

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 years ended December 31, 2020 and 2019.

	Percentage of Total Average Deposits and Borrowed Funds				Cost of Funds	
	Year ended December 31,		Year ended December 31,		Year ended December 31,	
	2020	2019	2020	2019	2020	2019
Noninterest-bearing demand	21 %	16 %	— %	— %	— %	— %
Interest-bearing demand	31	29	0.58	1.04		
Brokered deposits	1	—	0.87	—		
Savings deposits	6	6	0.31	0.45		
Time deposits	32	37	1.76	2.10		
Short-term borrowings	3	6	1.09	2.07		
Borrowed funds	6	6	3.26	3.03		
Total deposits and borrowed funds	100 %	100 %	1.00 %	1.40 %		

*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 capital stock and debt securities from time to time to fund acquisitions and support our organic growth. During 2019, we issued \$25.0 million of subordinated notes and during 2017 we issued \$18.6 million of subordinated notes, both structured to qualify as Tier 2 capital for regulatory capital purposes. For additional information see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Discussion and Analysis of Financial Condition – Borrowings*.

In 2019, we issued 1,290,323 shares of common stock for net proceeds of \$28.5 million. We also issued 763,849 shares of common stock in connection with our acquisition of Mainland in 2019 and 799,559 shares of common stock in connection with our acquisition of BOJ in 2017. During 2020, we paid \$2.7 million in dividends, compared to \$2.2 million in 2019 and \$1.5 million in 2018. Our board of directors has authorized a share repurchase program and during 2020 we paid \$11.1 million to repurchase our shares, compared to \$8.3 million in 2019 and \$3.4 million in 2018. On both March 10, 2020 and August 27, 2020, the board of directors approved an additional 300,000 shares of the Company's common stock for repurchase. At December 31, 2020, we had 264,830 shares of our common stock remaining authorized for repurchase under the program.

For additional information, see Notes 2, 11 and 14 to our consolidated financial statements. We are subject to restrictions on dividends under applicable banking laws and regulations. Please refer to the discussion under the heading "Supervision and Regulation – Dividends" in *Item 1. Business*, for more information. We are also subject to additional legal and contractual restrictions on dividends. Please refer to the discussion under the heading "Dividend Policy" in *Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities* and under the heading "Common Stock - Dividend Restrictions" in Note 14 in the Notes to Consolidated Financial Statements contained in *Item 8. Financial Statements and Supplementary Data*.

We are subject to various regulatory capital requirements administered by the Federal Reserve and the OCC. These requirements are described in greater detail under the heading "Supervision and Regulation – Regulatory Capital Requirements" of *Item 1. Business*. Those guidelines specify capital tiers, which include the following classifications:

<b>Capital Tiers<sup>(1)</sup></b>	<b>Tier 1 Leverage Ratio</b>	<b>Common Equity Tier 1 Capital Ratio</b>	<b>Tier 1 Capital Ratio</b>	<b>Total Capital Ratio</b>	<b>Ratio of Tangible to Total Asset</b>
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

<sup>(1)</sup> 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. In order to be well capitalized, the Bank cannot be subject to any written agreement or order requiring it to maintain a specific level of capital for any capital measure.

The Company and the Bank each were in compliance with all regulatory capital requirements as of December 31, 2020, 2019 and 2018. 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
<b>December 31, 2020</b>				
<b>Investar Holding Corporation:</b>				
Tier 1 capital to average assets (leverage)	\$ 215,750	9.49 %	\$ —	— %
Tier 1 common equity to risk-weighted assets	209,250	11.02	—	—
Tier 1 capital to risk-weighted assets	215,750	11.36	—	—
Total capital to risk-weighted assets	279,253	14.71	—	—
<b>Investar Bank:</b>				
Tier 1 capital to average assets (leverage)	237,684	10.47	113,546	5.00
Tier 1 common equity to risk-weighted assets	237,684	12.53	123,268	6.50
Tier 1 capital to risk-weighted assets	237,684	12.53	151,714	8.00
Total capital to risk-weighted assets	258,291	13.62	189,642	10.00
<b>December 31, 2019</b>				
<b>Investar Holding Corporation:</b>				
Tier 1 capital to average assets (leverage)	\$ 215,550	10.45 %	\$ —	— %
Tier 1 common equity to risk-weighted assets	209,050	11.67	—	—
Tier 1 capital to risk-weighted assets	215,550	12.03	—	—
Total capital to risk-weighted assets	269,171	15.02	—	—
<b>Investar Bank:</b>				
Tier 1 capital to average assets (leverage)	222,316	10.77	103,223	5.00
Tier 1 common equity to risk-weighted assets	222,316	12.43	116,293	6.50
Tier 1 capital to risk-weighted assets	222,316	12.43	143,130	8.00
Total capital to risk-weighted assets	233,111	13.03	178,912	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 9.6 years. At December 31, 2020, the Bank had interest rate swap contracts with a notional amount of \$80.0 million and forward starting interest rate swap agreements with a total notional amount of \$140.0 million, compared to one interest rate swap contract with a total notional amount of \$50.0 million at December 31, 2019.

For the year ended December 31, 2020, a loss of \$2.3 million, net of a \$0.6 million tax benefit, was recognized in "Other comprehensive (loss) income" ("OCI") in the accompanying consolidated statements of other comprehensive income for the change in fair value of the interest rate swap contracts. For the years ended December 31, 2019 and December 31, 2018, a gain of \$51,000, net of a \$14,000 tax expense, and a gain of \$84,000, net of a \$22,000 tax expense, respectively, was recognized in OCI in the accompanying consolidated statements of other comprehensive income for the change in fair value of the interest rate swap contracts.

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 years ended December 31, 2020 and 2019.

*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. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded lending commitments is included in other liabilities in the balance sheet. At December 31, 2020 and 2019, the reserve for unfunded loan commitments was \$0.2 million and \$0.1 million, 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).

	December 31, 2020	December 31, 2019
<b>Commitments to extend credit:</b>		
Loan commitments	\$ 266,039	\$ 242,180
Standby letters of credit	14,420	11,475

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 will continue this process as new commitments are entered into or existing commitments are renewed.

Additionally, at December 31, 2020, the Company had unfunded commitments of \$1.0 million for its investment in Small Business Investment Company qualified funds.

For each of the years ended December 31, 2020 and 2019, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations, or cash flows currently or in the future.



## Contractual Obligations

The following table presents, as of December 31, 2020, significant fixed and determinable 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 <sup>(1)</sup>	\$ 1,352,433	\$ —	\$ —	\$ —	\$ 1,352,433
Time deposits <sup>(1)</sup>	382,573	136,860	15,958	—	535,391
Securities sold under agreements to repurchase <sup>(1)</sup>	5,653	—	—	—	5,653
Federal Home Loan Bank advances <sup>(2)</sup>	42,000	—	23,500	55,000	120,500
Subordinated debt <sup>(2)</sup>	—	—	—	43,600	43,600
Junior subordinated debentures <sup>(2)</sup>	—	—	—	6,702	6,702
Operating lease commitment	593	1,193	991	1,691	4,468
Total contractual obligations	<u>\$ 1,783,252</u>	<u>\$ 138,053</u>	<u>\$ 40,449</u>	<u>\$ 106,993</u>	<u>\$ 2,068,747</u>

<sup>(1)</sup> Excludes interest.

<sup>(2)</sup> Excludes unamortized premiums and discounts.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information contained in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management* hereof is incorporated herein by reference.

**Item 8. Financial Statements and Supplementary Data**

**Management’s Report on Internal Control over Financial Reporting**

To the Stockholders and Board of Directors  
Investar Holding Corporation  
Baton Rouge, Louisiana

Investar Holding Corporation (the “Company”) is responsible for the preparation, integrity and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with accounting principles generally accepted in the United States of America and necessarily include some amounts that are based on management’s best estimates and judgments.

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company’s internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden, and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management, with the participation of the Company’s principal executive officer and principal financial officer, conducted an assessment of the effectiveness of the Company’s system of internal control over financial reporting as of December 31, 2020, based on criteria for effective internal control over financial reporting described in the “Internal Control - Integrated Framework,” (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as of December 31, 2020, the Company’s system of internal control over financial reporting is effective and meets the criteria of the “Internal Control – Integrated Framework.”

HORNE LLP, the Company’s independent registered public accounting firm that has audited the Company’s financial statements included in this annual report, has issued an attestation report on the Company’s internal control over financial reporting which is included herein.

Date: March 10, 2021

By: /s/ John J. D’Angelo  
John J. D’Angelo  
President and Chief Executive Officer

Date: March 10, 2021

By: /s/ Christopher L. Hufft  
Christopher L. Hufft  
Executive Vice President and Chief Financial Officer

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Investar Holding Corporation

### Opinion on the Internal Control Over Financial Reporting

We have audited Investar Holding Corporation's (the "Company") internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the "PCAOB"), the consolidated financial statements of the Company as of December 31, 2020 and our report dated March 10, 2021 expressed an unqualified opinion.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ HORNE LLP

Baton Rouge, Louisiana  
March 10, 2021

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Investar Holding Corporation

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Investar Holding Corporation (the “Company”) as of December 31, 2020, and the related consolidated statements of income, comprehensive income, changes in shareholder’ equity, and cash flows, for the year ended December 31, 2020, and the related notes to the consolidated financial statements (collectively, referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the “PCAOB”), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 10, 2021, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (i) relates to accounts or disclosures that are material to the financial statements and (ii) involved especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

#### Allowance for Loan Losses

As described in Notes 1 and 4 to the financial statements, the Company’s allowance for loan losses is a valuation allowance that reflects the Company’s estimation of incurred losses in its loan portfolio to the extent they are both probable and reasonable to estimate. The allowance for loan losses was \$20,363,000 at December 31, 2020, which consists of two components; the allowance for loans individually evaluated for impairment (“specific reserves”) and the allowance for loans collectively evaluated for impairment (“general reserves”).

The Company’s general reserves include reserves based on historical charge-off factors and qualitative general reserve factors. The component for qualitative general reserve factors involves an evaluation of items which are not yet reflected in the factors for historical charge-offs including changes in: lending policies and procedures, economic and business conditions, nature and volume of the portfolio, lending staff, volume and severity of delinquent loans, loan review systems, collateral values, and concentrations of credit. The evaluation of these items results in qualitative general reserve factors, which contribute significantly to the general reserve component of the estimate of the allowance for loan losses.

We identified management's estimate of the aggregate effect of the qualitative reserve factors on the allowance for loan losses as a critical audit matter as it involved subjective auditor judgment. Management's determination of qualitative general reserve factors involved especially subjective judgment because management's estimate relies on qualitative analysis to determine the quantitative impact the items have on the allowance.

The primary procedures we performed to address this critical audit matter included:

Evaluated the design and tested the operating effectiveness of controls over the determination of items used to estimate the qualitative general reserve factors, including controls addressing:

- a. The data used as the basis for the adjustments relating to qualitative general reserve factors.
- b. Management's determination of loans excluded from qualitative general reserve factors calculation.
- c. Management's review of the qualitative and quantitative conclusions related to the qualitative general reserve factors and the resulting allocation to the allowance.

Substantively tested the general reserves related to qualitative general reserve factors which included:

- a. Evaluation of the completeness and accuracy of data inputs used as a basis for the adjustments relating to the qualitative general reserve factors.
- b. Evaluation of loans excluded from the qualitative general reserve calculation for propriety of classification.
- c. Evaluation of the reasonableness of management's judgments related to the qualitative and quantitative assessment of the data used in the determination of qualitative general reserve factors and the resulting allocation to the allowance. Our evaluation considered the weight of confirming and disconfirming evidence from internal and external sources, loan portfolio performance and third-party data, and whether management's assumptions were applied consistently period to period.

/s/ HORNE LLP

We have served as the Company's auditor since 2020.

Baton Rouge, Louisiana  
March 10, 2021

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Investar Holding Corporation

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Investar Holding Corporation (the Company) as of December 31, 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2019 and 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019, and the results of its operations and its cash flows for the years ended December 31, 2019 and 2018, in conformity with U.S. generally accepted accounting principles.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

New Orleans, Louisiana  
March 13, 2020

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

	December 31,	
	2020	2019
<b>ASSETS</b>		
Cash and due from banks	\$ 25,672	\$ 23,769
Interest-bearing balances due from other banks	9,696	20,539
Federal funds sold	—	387
Cash and cash equivalents	35,368	44,695
Available for sale securities at fair value (amortized cost of \$263,913 and \$258,104, respectively)	268,410	259,805
Held to maturity securities at amortized cost (estimated fair value of \$12,649 and \$14,480, respectively)	12,434	14,409
Loans, net of allowance for loan losses of \$20,363 and \$10,700, respectively	1,839,955	1,681,275
Equity securities	16,599	19,315
Bank premises and equipment, net of accumulated depreciation of \$15,830 and \$12,432, respectively	56,303	50,916
Other real estate owned, net	663	133
Accrued interest receivable	12,969	7,913
Deferred tax asset	1,360	—
Goodwill and other intangible assets, net	32,232	31,035
Bank owned life insurance	38,908	32,014
Other assets	5,980	7,406
Total assets	<u>\$ 2,321,181</u>	<u>\$ 2,148,916</u>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 448,230	\$ 351,905
Interest-bearing	1,439,594	1,355,801
Total deposits	1,887,824	1,707,706
Advances from Federal Home Loan Bank	120,500	131,600
Repurchase agreements	5,653	2,995
Subordinated debt, net of unamortized issuance costs	42,897	42,826
Junior subordinated debt	5,949	5,897
Accrued taxes and other liabilities	15,074	15,916
Total liabilities	2,077,897	1,906,940
<b>STOCKHOLDERS' EQUITY</b>		
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; 10,608,869 and 11,228,775 shares issued and outstanding, respectively	10,609	11,229
Surplus	159,485	168,658
Retained earnings	71,385	60,198
Accumulated other comprehensive income	1,805	1,891
Total stockholders' equity	243,284	241,976
Total liabilities and stockholders' equity	<u>\$ 2,321,181</u>	<u>\$ 2,148,916</u>

*See accompanying notes to the consolidated financial statements.*

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

	For the years ended December 31,		
	2020	2019	2018
<b>INTEREST INCOME</b>			
Interest and fees on loans	\$ 87,365	\$ 80,954	\$ 66,750
Interest on investment securities	5,613	7,440	6,608
Other interest income	816	1,049	533
Total interest income	<u>93,794</u>	<u>89,443</u>	<u>73,891</u>
<b>INTEREST EXPENSE</b>			
Interest on deposits	15,376	19,307	11,394
Interest on borrowings	4,884	5,318	5,127
Total interest expense	<u>20,260</u>	<u>24,625</u>	<u>16,521</u>
Net interest income	73,534	64,818	57,370
Provision for loan losses	11,160	1,908	2,570
Net interest income after provision for loan losses	<u>62,374</u>	<u>62,910</u>	<u>54,800</u>
<b>NONINTEREST INCOME</b>			
Service charges on deposit accounts	1,917	1,840	1,453
Gain on sale of investment securities, net	2,289	262	14
(Loss) gain on sale of fixed assets, net	(38)	(11)	98
Gain (loss) on sale of other real estate owned, net	12	2	(24)
Servicing fees and fee income on serviced loans	379	593	963
Interchange fees	1,414	1,114	932
Income from bank owned life insurance	894	703	628
Change in the fair value of equity securities	268	341	(267)
Other operating income	4,961	1,372	521
Total noninterest income	<u>12,096</u>	<u>6,216</u>	<u>4,318</u>
Income before noninterest expense	74,470	69,126	59,118
<b>NONINTEREST EXPENSE</b>			
Depreciation and amortization	4,570	3,462	2,553
Salaries and employee benefits	33,378	28,643	25,469
Occupancy	2,236	1,837	1,378
Data processing	3,069	2,360	2,090
Marketing	333	260	237
Professional fees	1,519	1,189	1,051
Acquisition expense	1,062	2,090	1,445
Other operating expenses	10,964	8,327	7,659
Total noninterest expense	<u>57,131</u>	<u>48,168</u>	<u>41,882</u>
Income before income tax expense	17,339	20,958	17,236
Income tax expense	3,450	4,119	3,630
Net income	<u>\$ 13,889</u>	<u>\$ 16,839</u>	<u>\$ 13,606</u>
<b>EARNINGS PER SHARE</b>			
Basic earnings per share	\$ 1.27	\$ 1.68	\$ 1.41
Diluted earnings per share	<u>1.27</u>	<u>1.66</u>	<u>1.39</u>
Cash dividends declared per common share	<u>0.25</u>	<u>0.23</u>	<u>0.17</u>

*See accompanying notes to the consolidated financial statements.*



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

	For the years ended December 31,		
	2020	2019	2018
Net income	\$ 13,889	\$ 16,839	\$ 13,606
Other comprehensive income (loss):			
Unrealized gain (loss) on investment securities:			
Unrealized gain (loss), available for sale, net of tax expense (benefit) of \$1,068, \$1,362, and \$(419), respectively	4,017	5,123	(1,576)
Reclassification of realized gain, net of tax expense of \$481, \$56, and \$3, respectively	(1,808)	(206)	(11)
Unrealized loss, transfer from available for sale to held to maturity, net of tax benefit of \$0 for all respective periods	(1)	(1)	(2)
Fair value of derivative financial instruments			
Change in fair value of interest rate swap designated as a cash flow hedge, net of tax (benefit) expense of \$(610), \$14, and \$22, respectively	(2,294)	51	84
Total other comprehensive (loss) income	(86)	4,967	(1,505)
Total comprehensive income	\$ 13,803	\$ 21,806	\$ 12,101

*See accompanying notes to the consolidated financial statements.*

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

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
<b>Balance, December 31, 2017</b>	\$ 9,515	\$ 131,582	\$ 33,203	\$ (1,571)	\$ 172,729
Surrendered shares	(9)	(210)	—	—	(219)
Shares repurchased	(132)	(3,236)	—	—	(3,368)
Options and warrants exercised	76	960	—	—	1,036
Dividends declared, \$0.17 per share	—	—	(1,640)	—	(1,640)
Stock-based compensation	34	1,037	—	—	1,071
Reclassification of tax effects of the Tax Cuts and Jobs Act <sup>(1)</sup>	—	—	557	—	557
Net income	—	—	13,606	—	13,606
Other comprehensive loss, net	—	—	—	(1,505)	(1,505)
Impact of adoption of new accounting standards <sup>(2)</sup>	—	—	(5)	—	(5)
<b>Balance, December 31, 2018</b>	\$ 9,484	\$ 130,133	\$ 45,721	\$ (3,076)	\$ 182,262
Common stock issued in offering, net of direct costs of \$1,475	1,290	27,235	—	—	28,525
Common stock issued in acquisition, net of issuance costs	764	17,873	—	—	18,637
Surrendered shares	(11)	(272)	—	—	(283)
Shares repurchased	(360)	(7,966)	—	—	(8,326)
Options exercised	21	266	—	—	287
Dividends declared, \$0.23 per share	—	—	(2,362)	—	(2,362)
Stock-based compensation	41	1,389	—	—	1,430
Net income	—	—	16,839	—	16,839
Other comprehensive income, net	—	—	—	4,967	4,967
<b>Balance, December 31, 2019</b>	\$ 11,229	\$ 168,658	\$ 60,198	\$ 1,891	\$ 241,976
Stock issuance costs	—	(57)	—	—	(57)
Surrendered shares	(15)	(299)	—	—	(314)
Shares repurchased	(662)	(10,450)	—	—	(11,112)
Options exercised	3	43	—	—	46
Dividends declared, \$0.25 per share	—	—	(2,702)	—	(2,702)
Stock-based compensation	54	1,590	—	—	1,644
Net income	—	—	13,889	—	13,889
Other comprehensive loss, net	—	—	—	(86)	(86)
<b>Balance, December 31, 2020</b>	\$ 10,609	\$ 159,485	\$ 71,385	\$ 1,805	\$ 243,284

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

<sup>(2)</sup> Represents the impact of adopting ASU No. 2016-01.

*See accompanying notes to the consolidated financial statements.*

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

	For the years ended December 31,		
	2020	2019	2018
<b>Cash flows from operating activities</b>			
Net income	\$ 13,889	\$ 16,839	\$ 13,606
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,570	3,462	2,553
Provision for loan losses	11,160	1,908	2,570
Amortization of purchase accounting adjustments	(1,112)	(1,425)	(2,180)
Provision for other real estate owned	30	18	567
Net amortization of securities	2,825	712	478
Gain on sale of investment securities, net	(2,289)	(262)	(14)
Loss (gain) on sale of fixed assets, net	38	11	(98)
(Gain) loss on sale of other real estate owned, net	(12)	(2)	24
FHLB stock dividend	(134)	(336)	(239)
Stock-based compensation	1,644	1,430	1,071
Deferred taxes	(1,388)	153	841
Net change in value of bank owned life insurance	(894)	(703)	(628)
Amortization of subordinated debt issuance costs	71	53	46
Change in the fair value of equity securities	(268)	(341)	267
Net change in:			
Accrued interest receivable	(5,056)	(1,925)	(865)
Other assets	(953)	(2,015)	995
Accrued taxes and other liabilities	(4,372)	990	(2,582)
<b>Net cash provided by operating activities</b>	<b>17,749</b>	<b>18,567</b>	<b>16,412</b>
<b>Cash flows from investing activities</b>			
Proceeds from sales of investment securities available for sale	56,466	65,834	7,021
Purchases of securities available for sale	(127,123)	(110,431)	(72,258)
Proceeds from maturities, prepayments and calls of investment securities available for sale	64,348	39,578	30,545
Proceeds from maturities, prepayments and calls of investment securities held to maturity	1,938	1,623	1,884
Proceeds from redemption or sale of equity securities	9,283	2,986	1,299
Purchases of equity securities	(6,165)	(7,040)	(4,265)
Net increase in loans	(124,736)	(162,025)	(141,505)
Proceeds from sales of other real estate owned	158	5,150	132
Purchases of other real estate owned	—	—	(257)
Proceeds from insurance claims	232	—	—
Proceeds from sales of fixed assets	—	—	19
Purchases of fixed assets	(7,590)	(7,918)	(4,936)
Purchase of bank owned life insurance	(6,000)	(5,023)	—
Purchase of other investments	—	(95)	(119)
Proceeds from sales of other investments	1,762	—	—
Distributions from investments	93	162	39
Cash acquired from Mainland Bank	—	38,365	—
Cash acquired from Bank of York, net of cash paid	—	35,771	—
Cash paid for acquisition of PlainsCapital branches, net of cash acquired	(10,809)	—	—
<b>Net cash used in investing activities</b>	<b>(148,143)</b>	<b>(103,063)</b>	<b>(182,401)</b>

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

	For the years ended December 31,		
	2020	2019	2018
<b>Cash flows from financing activities</b>			
Net increase in customer deposits	143,318	153,403	136,644
Net increase (decrease) in repurchase agreements	2,658	(9,329)	(19,936)
Net (decrease) increase in short-term FHLB advances	(8,000)	(86,400)	22,900
Proceeds from long-term FHLB advances	—	23,500	75,000
Repayment of long-term FHLB advances	(3,100)	(12,000)	(58,100)
Cash dividends paid on common stock	(2,686)	(2,167)	(1,468)
Payments to repurchase common stock	(11,112)	(8,326)	(3,368)
Proceeds from common stock offering, net of issuance costs	—	28,525	—
Proceeds from stock options and warrants exercised	46	287	1,036
Proceeds from subordinated debt, net of issuance costs	—	24,558	—
Payments of stock issuance costs	(57)	—	—
<b>Net cash provided by financing activities</b>	<b>121,067</b>	<b>112,051</b>	<b>152,708</b>
Net (decrease) increase in cash and cash equivalents	(9,327)	27,555	(13,281)
Cash and cash equivalents, beginning of period	44,695	17,140	30,421
Cash and cash equivalents, end of period	<u>\$ 35,368</u>	<u>\$ 44,695</u>	<u>\$ 17,140</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash payments for:

Income taxes	\$ 4,336	\$ 4,190	\$ 2,555
Interest on deposits and borrowings	20,702	24,396	16,139

**SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES**

Transfer from loans to other real estate owned	\$ 41	\$ 133	\$ 239
Transfer from bank premises and equipment to other real estate owned	665	—	—

*See accompanying notes to the consolidated financial statements.*

**INVESTAR HOLDING CORPORATION**  
**Notes to Consolidated Financial Statements**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Investar Holding Corporation (the “Company”) is a financial holding company headquartered in Baton Rouge, Louisiana, that provides, through its wholly-owned subsidiary, Investar Bank, National Association (the “Bank”), full banking services, excluding trust services, tailored primarily to meet the needs of individuals and small to medium-sized businesses throughout its markets in south Louisiana, southeast Texas and west Alabama.

**Basis of Presentation**

The consolidated financial statements of Investar Holding Corporation and its wholly-owned subsidiary, the Bank, have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and to generally accepted practices within the banking industry.

**Segments**

While our chief decision maker monitors the revenue streams of the various banking products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company’s banking operations are considered by management to be aggregated in one reportable operating segment. Because the overall banking operations comprise substantially all of the consolidated operations, no separate segment disclosures are presented in the accompanying consolidated financial statements.

**Principles of Consolidation**

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

**Use of Estimates**

The preparation of statements in conformity with 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 allowance for off-balance sheet credit losses, the fair value of stock-based compensation awards, 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.

**Investment Securities**

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

**INVESTAR HOLDING CORPORATION**  
**Notes to Consolidated Financial Statements**

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

Unrealized holding gains and losses, net of tax, on available for sale 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 and equity securities are determined using the specific-identification method and average price method, respectively.

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

### **Loans**

The Company’s loan portfolio categories include real estate, commercial and consumer loans. Real estate loans are further categorized into construction and development, one-to-four 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 that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the unpaid principal balance outstanding, net of purchase premiums or discounts, deferred income (net of costs), any direct principal charge-offs, and an allowance for loan losses. Interest on loans is calculated by using the effective interest rate on daily balances of the principal amount outstanding. Loan origination fees, net of direct loan origination costs, and commitment fees, are deferred and amortized as an adjustment to yield over the life of the loan, or over the commitment period, as applicable.

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 ordinarily placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more; however, management may elect to continue the accrual when the estimated net realizable value of collateral is sufficient to cover the principal balance and the accrued interest. Any unpaid interest previously accrued on nonaccrual loans is reversed from income. Interest income, generally, is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period of repayment performance by the borrower.

The Company considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The Company’s impaired loans include troubled debt restructurings (“TDRs”) and performing and non-performing loans for which full payment of principal or interest is not expected. Large groups of smaller balance homogenous 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.

See *Treatment of Loan Modifications Pursuant to the CARES Act and Interagency Statement* under Accounting Standards Adopted in 2020 below for further discussion on the accounting treatment for loans.

**INVESTAR HOLDING CORPORATION**  
**Notes to Consolidated Financial Statements**

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.

See *Acquisition Accounting* and *Acquired Impaired Loans* below for accounting treatment of loans acquired through business acquisitions.

**Allowance for Loan Losses**

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

The allowance is an amount that management believes will be adequate to absorb probable losses inherent in the loan portfolio as of the balance sheet date based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Credits deemed uncollectible are charged to the allowance. Provisions for loan losses and recoveries on loans previously charged off are adjusted 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. The Company also considers third party or comparable company loss data. Changes in these factors are considered in determining changes in the allowance for loan losses. The impact of these factors on the Company's qualitative assessment of the allowance for loan losses can change from period to period based on management's assessment of the extent to which these factors are already reflected in historic loss rates. The uncertainty inherent in the estimation process is also considered in evaluating the allowance for loan losses.

In the ordinary course of business, the Bank enters into commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded lending commitments is included in other liabilities in the consolidated balance sheet. At December 31, 2020 and 2019 the reserve for unfunded loan commitments was \$0.2 million and \$0.1 million, respectively.

**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 ("IBFC") and First National Bankers Bank ("FNBB") stock. These investments are carried at cost which approximates fair value. The balance of equity securities in our correspondent banks at December 31, 2020 and 2019 was \$14.9 million and \$17.2 million, respectively.

**INVESTAR HOLDING CORPORATION**  
**Notes to Consolidated Financial Statements**

In addition, equity securities include marketable securities in corporate stocks and mutual funds and totaled \$1.7 million and \$2.1 million at December 31, 2020 and 2019, respectively.

**Bank Premises and Equipment**

Bank premises and equipment are stated at cost, less accumulated depreciation, with the exception of land, which is stated at cost. Depreciation expense is computed using the straight-line method and is charged to expense over the estimated useful lives of 39 years for buildings, five to 39 years for improvements, three to seven years for furniture and equipment, and one to five years for computer equipment and software. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are expensed as incurred. Gains or losses on the disposition of land, buildings, and equipment are included in noninterest income on the consolidated statements of income.

**Other Real Estate Owned**

Real estate acquired through foreclosure, or other real estate owned on the consolidated balance sheets, is initially recorded at fair value at the time of foreclosure, less estimated selling cost, and any related write down is charged to the allowance for loan losses. Valuations are periodically performed by management and provisions for estimated losses on other real estate owned are charged to expense when fair value is determined to be less than the carrying value.

Costs relative to the development and improvement of properties are capitalized to the extent realizable, whereas ordinary upkeep disbursements are charged to expense. The ability of the Company to recover the carrying value of real estate is based upon future sales of the other real estate owned. The ability to affect such sales is subject to market conditions and other factors, many of which are beyond the Company's control. Operating income and expense of such properties is included in other operating income or expense, respectively, on the accompanying consolidated statements of income. Gain or loss on the disposition of such properties is included in noninterest income on the consolidated statements of income.

**Goodwill and Other Intangible Assets**

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill and other intangible assets deemed to have an indefinite useful life are not amortized but instead are subject to review for impairment annually, or more frequently if deemed necessary, in accordance with the provisions of FASB ASC Topic 350, *Intangibles – Goodwill and Other*.

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives and reviewed for impairment in accordance with FASB ASC Topic 360, *Property, Plant, and Equipment*. If impaired, the asset is written down to its estimated fair value. No impairment charges have been recognized through December 31, 2020. Core deposit intangibles representing the value of the acquired core deposit base are generally recorded in connection with business combinations involving banks and branch locations. The Company's policy is to amortize core deposit intangibles over the estimated useful life of the deposit base. The remaining useful lives of core deposit intangibles are evaluated periodically to determine whether events and circumstances warrant revision of the remaining period of amortization. The Company's core deposit intangibles are currently amortized using the sum-of-the-years-digits basis over 10 to 15 years. See Note 8, Goodwill and Other Intangible Assets, for additional information.

**Bank Owned Life Insurance**

The Company invests in bank owned life insurance ("BOLI") policies that provide earnings to help cover the cost of employee benefit plans. The Company is the owner and beneficiary of the life insurance policies it purchased directly on a chosen group of employees. The policies are carried on the Company's consolidated balance sheet at their cash surrender value and are subject to regulatory capital requirements. The determination of the cash surrender value includes a full evaluation of the contractual terms of each policy and assumes the surrender of policies on an individual-life by individual-life basis. Additionally, the Company periodically reviews the creditworthiness of the insurance companies that have underwritten the policies. Earnings accruing to the Company are derived from the general account investments of the insurance companies. Increases in the net cash surrender value of BOLI policies and insurance proceeds received are not taxable and are recorded in noninterest income in the consolidated statements of income.



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**Repurchase Agreements**

Securities sold under agreements to repurchase are secured borrowings treated as financing activities and are carried at the amounts at which the securities will be subsequently reacquired as specified in the respective agreements.

**Stock-Based Compensation**

The Company accounts for stock-based compensation under the provisions of ASC Topic 718, *Compensation - Stock Compensation*. Under this accounting guidance, fair value is established as the measurement objective in accounting for share-based payment awards and requires the application of a fair value based measurement method in accounting for compensation costs, which is recognized over the requisite service period. The impact of forfeitures of share-based payment awards on compensation expense is recognized as forfeitures occur. See Note 15, Stock-Based Compensation, for further disclosures regarding stock-based compensation.

**Off-Balance Sheet Credit-Related Financial Instruments**

The Company accounts for its guarantees in accordance with the provisions of ASC Topic 460, *Guarantees*. In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card agreements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

**Derivative Financial Instruments**

ASC Topic 815, *Derivatives and Hedging*, requires that all derivatives be recognized as assets or liabilities in the balance sheet at fair value. Derivatives executed with the same counterparty are generally subject to master netting arrangements, however, fair value amounts recognized for derivative financial instruments and fair value amounts recognized for the right/obligation to reclaim/return cash collateral are not offset for financial reporting purposes.

In the course of its business operations, the Company is exposed to certain risks, including interest rate, liquidity and credit risk. The Company manages its risks through the use of derivative financial instruments, primarily through management of exposure due to the receipt or payment of future cash amounts based on interest rates. The Company's derivative financial instruments manage the differences in the timing, amount and duration of expected cash receipts and payments.

Derivatives which are designated and qualify as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. The effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings or when the hedge is terminated. The ineffective portion of the gain or loss is reported in earnings immediately.

In applying hedge accounting for derivatives, the Company establishes a method for assessing the effectiveness of the hedging derivative and a measurement approach for determining the ineffective aspect of the hedge upon the inception of the hedge. These methods are consistent with the Company's approach to managing risk. Note 13, Derivative Financial Instruments, describes the derivative instruments currently used by the Company and discloses how these derivatives impact the Company's financial position and results of operations.

**Income Taxes**

The provision for income taxes is based on amounts reported in the consolidated statements of income after exclusion of nontaxable income such as interest on state and municipal securities. Also, certain items of income and expenses are recognized in different time periods for financial statement purposes than for income tax purposes. Thus, provisions for deferred taxes are recorded in recognition of such temporary differences.

Deferred taxes are determined utilizing a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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The Company has adopted accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

**Revenue Recognition**

The Company recognizes revenue in the consolidated statements of income as it is earned and when collectability is reasonably assured. The primary source of revenue is interest income from interest-earning assets, which is recognized on the accrual basis of accounting using the effective interest method. The recognition of revenues from interest-earning assets is based upon formulas from underlying loan agreements, securities contracts, or other similar contracts. Noninterest income is recognized on the accrual basis of accounting as services are provided or as transactions occur. Noninterest income includes fees from deposit accounts, merchant services, ATM and debit card fees, servicing fees, interchange fees, and other miscellaneous services and transactions.

**Earnings Per Share**

Basic earnings per share is calculated using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share separately for common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings distributed and undistributed, are allocated to participating securities and common shares based on their respective rights to receive dividends. Unvested share-based payment awards that contain nonforfeitable rights to dividends are considered participating securities (i.e. unvested time-vested restricted stock), not subject to performance based measures.

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is calculated in a manner similar to that of basic earnings per share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares (such as those resulting from the exercise of stock options and warrants) were issued during the period, computed using the treasury stock method.

**Statements of Cash Flows**

For purposes of the statements of cash flows, cash and cash equivalents include cash and amounts due from banks and federal funds sold due to the short-term nature of these items.

**Comprehensive Income**

Comprehensive income includes net income and other comprehensive income or loss, which in the case of the Company includes unrealized gains and losses on securities and changes in the fair value of interest rate swaps, net of related income taxes.

**Troubled Debt Restructurings**

The Company periodically grants concessions to its customers in an attempt to protect as much of its investment as possible and minimize the risk of loss. These concessions may include restructuring the terms of a customer loan, thereby adjusting the customer's payment requirements. In accordance with the FASB's Accounting Standards Update ("ASU") 2011-2, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, in order to be considered a troubled debt restructuring (a "TDR"), the Company must conclude that the restructuring constitutes a concession and the customer is experiencing financial difficulties. The Company defines a concession to a customer as a modification of existing loan terms for economic or legal reasons that it would otherwise not consider. Concessions are typically granted through an agreement with the customer or are imposed by a court of law. Concessions include modifying original loan terms to reduce or defer cash payments required as part of the loan agreement, including but not limited to a reduction of the stated interest rate for the remaining original life of the debt, an extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk characteristics, a reduction of the face amount or maturity amount of the debt, or a reduction of accrued interest receivable on a debt. In its determination of whether the customer is experiencing financial difficulties, the Company considers numerous indicators, including but not limited to, whether the customer has declared or is in the process of declaring bankruptcy, whether there is substantial doubt about the customer's ability to continue

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as a going concern, whether the Company believes the customer's future cash flows will be insufficient to service the debt in accordance with the contractual terms of the existing agreement for the foreseeable future, and whether without modification the customer cannot obtain sufficient funds from other sources at an effective interest rate equal to the current market rate for similar debt for a non-troubled debtor.

If the Company concludes that both a concession has been granted and the concession was granted to a customer experiencing financial difficulties, the Company identifies the loan as a TDR. For purposes of the determination of an allowance for loan losses on these TDRs, the loan is reviewed for specific impairment in accordance with the Company's allowance for loan loss methodology. If it is determined that losses are probable on such TDRs, either because of delinquency or other credit quality indicators, the Company establishes specific reserves for these loans.

### **Acquisition Accounting**

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

Purchased loans acquired in a business combination are recorded at their estimated fair value as of the acquisition date. The fair value of loans acquired is determined using a discounted cash flow model based on assumptions regarding the amount and timing of principal and interest prepayments, estimated payments, estimated default rates, estimated loss severity in the event of defaults, and current market rates. The fair value adjustment for performing acquired loans is accreted over the life of the loan using the effective interest method. Estimated credit losses are included in the determination of fair value; therefore, an allowance for loan losses is not recorded on the acquisition date. Subsequent to acquisition, acquired performing loans are evaluated using a similar allowance methodology as the legacy portfolio. An allowance for credit losses is only recorded to the extent that the required reserves exceed the unaccreted fair value adjustment.

### **Acquired Impaired Loans**

The Company accounts for acquired impaired loans under FASB 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 the Company will be unable to collect all contractually required payments. For acquired impaired loans, the Company (a) calculates the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows") and (b) estimates the amount and timing of undiscounted expected principal and interest payments (the "undiscounted expected cash flows"). Under ASC 310-30, the difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the loss exposure of principal and interest related to the acquired impaired loan portfolio, and such amount is subject to change over time based on the performance of such loans.

The excess of expected cash flows at acquisition over the initial fair value of acquired impaired loans is referred to as the "accretable yield" and is recorded as interest income over the estimated life of the loans using the effective yield method if the timing and amount of the future cash flows is reasonably estimable. As required by ASC 310-30, the Company periodically re-estimates the expected cash flows to be collected over the life of the acquired impaired loans. Improvements in expected cash flows over those originally estimated increase the accretable yield and are recognized as interest income prospectively. Decreases in the amount and changes in the timing of expected cash flows compared to those originally estimated decrease the accretable yield and usually result in a provision for loan losses and the establishment of an allowance for loan losses with respect to the acquired impaired loan. The carrying value of acquired impaired loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income. If future cash flows are not reasonably estimable, the Company accounts for the acquired loans using the cash basis method.

### **Share Repurchases**

The Louisiana Business Corporation Act does not include the concept of treasury stock. Rather, shares purchased by the Company constitute authorized but unissued shares. Accounting principles generally accepted in the United States of America state that accounting for treasury stock shall conform to state law. The Company's consolidated financial statements as of December 31, 2020, 2019 and 2018 reflect this change. The cost of shares purchased by the Company has been allocated to common stock and surplus balances.

## **Reclassifications**

Certain reclassifications have been made to the 2019 and 2018 financial statements to conform to the 2020 presentation.

## **Accounting Standards Adopted in 2020**

*FASB ASC Topic 820 “Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement” Update No. 2018-13.* ASU 2018-13 became effective for the Company on January 1, 2020. The ASU modifies the existing guidance on disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 removes the disclosure requirement detailing the amount of and reasons for transfers between Level 1 and Level 2 and the valuation processes for Level 3 fair value measurements. In addition, this ASU modifies the disclosure requirement for investments in certain entities that calculate net asset value. Lastly, ASU 2018-13 adds a disclosure requirement for changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 measurements. The impact of these amendments is limited to presentation and disclosure changes that did not have an impact on the Company’s consolidated financial statements.

*FASB ASC Topic 350 “Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment” ASU No. 2017-04.* ASU 2017-04 became effective for the Company on January 1, 2020. The ASU simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Therefore, any carrying amount which exceeds the reporting unit’s fair value, up to the amount of goodwill recorded, will be recognized as an impairment loss. The amendment will be applied prospectively on or after the effective date. Based on recent annual goodwill impairments tests, performed in the fourth quarter of each year, which did not require the application of Step 2, the adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

Prolonged continuation of the COVID-19 pandemic, or any other event that harms the global or U.S. economies or the economies of the regions in which our business is concentrated, could adversely affect our operations and negatively impact our financial condition and results of operations, which may require further evaluation in subsequent reporting periods, in addition to our annual impairment test performed in the fourth quarter of each year, and could result in an impairment charge.

## ***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 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. Legislation enacted on December 27, 2020 extended this relief 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.

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**Recent Accounting Pronouncements**

This section briefly describes accounting standards that have been issued, but are not yet adopted, that could impact the Company's financial statements.

*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 Topics 321, 323, and 815 "Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)" Update No. 2020-01.* In January 2020, the FASB issued ASU 2020-01 to clarify the interaction among ASC 321, ASC 323, and ASC 815 for equity securities, equity method investments, and certain financial instruments to acquire equity securities. ASU 2020-01 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 amendment is effective for the Company on January 1, 2021. The Company does not expect the adoption of ASU 2020-01 to have a material impact on its consolidated financial statements.

*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 was 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**

***Mainland Bank***

On March 1, 2019, the Company completed the acquisition of Mainland Bank (“Mainland”) located in Texas City, Texas. The Company acquired 100% of Mainland’s outstanding common shares for an aggregate merger consideration of 763,849 shares of the Company’s common stock, for a total of approximately \$18.6 million. The acquisition of Mainland expanded the Company’s branch footprint into the greater Houston, Texas market. After fair value adjustments, the acquisition added \$127.6 million in total assets, \$81.3 million in loans, and \$107.6 million in deposits. As consideration paid was in excess of the net fair value of acquired assets, the Company recorded \$5.2 million of goodwill. Goodwill resulted from a combination of synergies and cost savings, expansion into Texas with the addition of three branch locations, and enhanced products and services.

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

<b>Purchase price:</b>	
Stock issued	\$ 18,637
<b>Fair value of assets acquired:</b>	
Cash and cash equivalents	38,365
Loans	81,336
Other real estate owned	1,507
Bank premises and equipment	2,550
Core deposit intangible asset	2,439
Other assets	1,414
Total assets acquired	<u>127,611</u>
<b>Fair value of liabilities acquired:</b>	
Deposits	107,646
Repurchase agreements	4,684
Other liabilities	1,883
Total liabilities assumed	<u>114,213</u>
Fair value of net assets acquired	<u>13,398</u>
<b>Goodwill</b>	<u>\$ 5,239</u>

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

The fair value of net assets acquired includes a fair value adjustment to loans as of the acquisition date. The adjustment for the acquired loan portfolio is based on current market interest rates 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 Mainland total \$92.4 million.

Prior to the end of the one-year adjustment period following the acquisition of Mainland, certain loans were identified to be purchase credit impaired loans at the time of acquisition. These loans had a balance of \$2.8 million at the time of acquisition. The contractually required principal and interest payments of these loans total \$3.1 million, of which \$1.7 million is not expected to be collected.

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***Bank of York***

On November 1, 2019, the Company completed the acquisition of Bank of York located in York, Alabama. The Company acquired 100% of Bank of York's outstanding common shares for an aggregate cash merger consideration of \$15.0 million. The acquisition of Bank of York expanded the Company's branch footprint into the west Alabama market. After fair value adjustments, the acquisition added \$101.9 million in total assets, \$46.1 million in loans, and \$85.0 million in deposits. As consideration paid was in excess of the net fair value of acquired assets, the Company recorded \$5.0 million of goodwill. Goodwill resulted from a combination of synergies and cost savings, and expansion into Alabama with the addition of two branch locations.

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

<b>Purchase price:</b>	
Cash paid	\$ 15,000
<b>Fair value of assets acquired:</b>	
Cash and cash equivalents	50,776
Investments	451
Loans	46,086
Bank premises and equipment	917
Core deposit intangible asset	931
Bank owned life insurance	2,429
Other assets	344
Total assets acquired	101,934
<b>Fair value of liabilities acquired:</b>	
Deposits	85,004
Repurchase agreements	5,641
Other liabilities	1,306
Total liabilities assumed	91,951
Fair value of net assets acquired	9,983
<b>Goodwill</b>	<b>\$ 5,017</b>

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 Bank of York total \$51.5 million.

Loans acquired from Bank of York that are considered to be purchased credit impaired loans had a balance of \$0.3 million at the time of acquisition. The contractually required principal and interest payments of these loans total \$0.3 million, of which \$0.1 million is not expected to be collected.

***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.

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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). The fair values listed below, primarily related to loans and deferred tax assets and liabilities, are subject to refinement for up to one year after the closing date of the acquisition as additional information becomes available.

<b>Purchase price:</b>	
Cash paid	\$ 11,162
<b>Fair value of assets acquired:</b>	
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
<b>Fair value of liabilities acquired:</b>	
Deposits	36,973
Other liabilities	1,084
Total liabilities assumed	38,057
Fair value of net assets acquired	10,698
<b>Goodwill</b>	<b>\$ 464</b>

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.

The change in goodwill and other intangibles at December 31, 2020 compared to December 31, 2019 is primarily attributable to fair value adjustments recorded within the one-year adjustment period following the acquisitions of Mainland and Bank of York, as well as goodwill and core deposit intangibles recorded as a result of the acquisition of branch locations from PlainsCapital.

***Acquisition Expense***

Acquisition related costs of \$1.1 million and \$2.1 million are included in acquisition expenses in the accompanying consolidated statements of income for the years ended December 31, 2020 and 2019, respectively. These costs include system conversion and integrating operations charges and legal and consulting expenses related to the acquisitions of Mainland, Bank of York, and the branches from PlainsCapital, as well as legal and consulting expenses related to the pending acquisition of Cheaha Financial Group, Inc., announced in January 2021.



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**NOTE 3. 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).

<b>December 31, 2020</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
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	<u>\$ 263,913</u>	<u>\$ 4,916</u>	<u>\$ (419)</u>	<u>\$ 268,410</u>

<b>December 31, 2019</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Obligations of U.S. government agencies and corporations	\$ 33,651	\$ 100	\$ (100)	\$ 33,651
Obligations of state and political subdivisions	32,920	541	(12)	33,449
Corporate bonds	19,245	192	(274)	19,163
Residential mortgage-backed securities	100,948	1,083	(85)	101,946
Commercial mortgage-backed securities	71,340	564	(308)	71,596
Total	<u>\$ 258,104</u>	<u>\$ 2,480</u>	<u>\$ (779)</u>	<u>\$ 259,805</u>

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

	<b>Twelve months ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Proceeds from sales	\$ 56,466	\$ 65,834	\$ 7,021
Gross gains	\$ 2,300	\$ 608	\$ 35
Gross losses	\$ (11)	\$ (346)	\$ (21)

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

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

<b>December 31, 2019</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Obligations of state and political subdivisions	\$ 9,487	\$ 14	\$ —	\$ 9,501
Residential mortgage-backed securities	4,922	57	—	4,979
Total	<u>\$ 14,409</u>	<u>\$ 71</u>	<u>\$ —</u>	<u>\$ 14,480</u>

Securities are classified in the consolidated balance sheets according to management's intent. The Company had no securities classified as trading as of December 31, 2020 or December 31, 2019.

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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 December 31, 2020 or December 31, 2019.

	Count	Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2020</b>							
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)

	Count	Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2019</b>							
Obligations of U.S. government agencies and corporations	21	\$ 19,980	\$ (94)	\$ 955	\$ (6)	\$ 20,935	\$ (100)
Obligations of state and political subdivisions	10	212	(1)	371	(11)	583	(12)
Corporate bonds	21	495	(5)	7,829	(269)	8,324	(274)
Residential mortgage-backed securities	32	12,341	(56)	6,190	(29)	18,531	(85)
Commercial mortgage-backed securities	57	29,072	(274)	2,516	(34)	31,588	(308)
Total	141	\$ 62,100	\$ (430)	\$ 17,861	\$ (349)	\$ 79,961	\$ (779)

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 December 31, 2020 and 2019.

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

	Securities Available For Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>December 31, 2020</b>				
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

	Securities Available For Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>December 31, 2019</b>				
Due within one year	\$ 2,174	\$ 2,175	\$ 790	\$ 792
Due after one year through five years	13,525	13,675	3,575	3,582
Due after five years through ten years	66,551	66,568	5,122	5,126
Due after ten years	175,854	177,387	4,922	4,980
Total debt securities	\$ 258,104	\$ 259,805	\$ 14,409	\$ 14,480

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At December 31, 2020, securities with a carrying value of \$84.6 million were pledged to secure certain deposits, borrowings, and other liabilities, compared to \$89.5 million in pledged securities at December 31, 2019.

**NOTE 4. 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).

	December 31,	
	2020	2019
Construction and development	\$ 206,011	\$ 197,797
1-4 Family	339,525	321,489
Multifamily	60,724	60,617
Farmland	26,547	27,780
Commercial real estate	812,395	731,060
Total mortgage loans on real estate	1,445,202	1,338,743
Commercial and industrial	394,497	323,786
Consumer	20,619	29,446
Total loans	\$ 1,860,318	\$ 1,691,975

Unamortized premiums and discounts on loans, included in the total loans balances above, were \$1.8 million and \$2.1 million at December 31, 2020 and 2019, respectively. Unearned income, or deferred fees, on loans was \$3.2 million and \$0.9 million at December 31, 2020 and 2019, respectively and is also included in the total loans balances in the table above.

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, legislation 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 the PPP in January 2021, and the application period will last until March 31, 2021, subject to the availability of funds. At December 31, 2020, our loan portfolio included PPP loans with a balance of \$94.5 million, all of which are included in commercial and industrial loans.

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**Nonaccrual and Past Due Loans**

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

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

<b>December 31, 2020</b>								
<b>Accruing</b>								
	<b>Current</b>	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Nonaccrual</b>	<b>Total Past Due &amp; Nonaccrual</b>	<b>Acquired Impaired Loans</b>	<b>Total Loans</b>
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	<u>\$ 1,839,754</u>	<u>\$ 3,780</u>	<u>\$ 1,146</u>	<u>\$ 321</u>	<u>\$ 11,160</u>	<u>\$ 16,407</u>	<u>\$ 4,157</u>	<u>\$ 1,860,318</u>

<b>December 31, 2019</b>								
<b>Accruing</b>								
	<b>Current</b>	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Nonaccrual</b>	<b>Total Past Due &amp; Nonaccrual</b>	<b>Acquired Impaired Loans</b>	<b>Total Loans</b>
Construction and development	\$ 197,318	\$ 133	\$ 32	\$ —	\$ 314	\$ 479	\$ —	\$ 197,797
1-4 Family	317,572	998	413	138	1,923	3,472	445	321,489
Multifamily	60,617	—	—	—	—	—	—	60,617
Farmland	25,516	—	—	—	—	—	2,264	27,780
Commercial real estate	727,423	1,193	14	657	141	2,005	1,632	731,060
Total mortgage loans on real estate	1,328,446	2,324	459	795	2,378	5,956	4,341	1,338,743
Commercial and industrial	323,446	171	19	—	137	327	13	323,786
Consumer	28,443	339	95	—	531	965	38	29,446
Total loans	<u>\$ 1,680,335</u>	<u>\$ 2,834</u>	<u>\$ 573</u>	<u>\$ 795</u>	<u>\$ 3,046</u>	<u>\$ 7,248</u>	<u>\$ 4,392</u>	<u>\$ 1,691,975</u>

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**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.

**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.

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**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.

**Concentrations of Credit**

Substantially all of the Company's loans and commitments have been granted to customers in the Company's market areas in south Louisiana, southeast Texas and west Alabama. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

**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.

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

	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

	December 31, 2019				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and development	\$ 196,873	\$ 610	\$ 314	\$ —	\$ 197,797
1-4 Family	318,549	714	2,198	28	321,489
Multifamily	60,617	—	—	—	60,617
Farmland	25,516	—	2,264	—	27,780
Commercial real estate	729,921	—	1,139	—	731,060
Total mortgage loans on real estate	1,331,476	1,324	5,915	28	1,338,743
Commercial and industrial	318,519	2,910	2,264	93	323,786
Consumer	28,775	128	543	—	29,446
Total loans	\$ 1,678,770	\$ 4,362	\$ 8,722	\$ 121	\$ 1,691,975

The Company had no loans that were classified as loss at December 31, 2020 or 2019.

**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 balances of the participations and whole loans sold were \$53.5 million and \$82.8 million as of December 31, 2020 and 2019, respectively. The unpaid principal balances of these loans were approximately \$154.0 million and \$174.7 million at December 31, 2020 and 2019, respectively.

**Loans to Related Parties**

In the ordinary course of business, the Company makes loans to related parties including its executive officers, principal shareholders, directors and their immediate family members, as well as to companies in which these individuals are principal owners. Loans outstanding to such related party borrowers amounted to approximately \$96.4 million and \$98.1 million as of December 31, 2020 and December 31, 2019, respectively.

The table below shows the aggregate principal balance of loans to such related parties for the years ended December 31, 2020 and 2019 (dollars in thousands).

	December 31,	
	2020	2019
Balance, beginning of period	\$ 98,093	\$ 93,021
New loans/changes in relationship	12,443	20,903
Repayments/changes in relationship	(14,146)	(15,831)
Balance, end of period	\$ 96,390	\$ 98,093



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**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.

There were no changes in the accretable yield on acquired impaired loans for the years ended December 31, 2020 and 2019.

**Allowance for Loan Losses**

The table below shows a summary of the activity in the allowance for loan losses for the years ended December 31, 2020, 2019 and 2018 (dollars in thousands).

	December 31,		
	2020	2019	2018
Balance, beginning of period	\$ 10,700	\$ 9,454	\$ 7,891
Provision for loan losses	11,160	1,908	2,570
Loans charged-off	(1,754)	(800)	(1,185)
Recoveries	257	138	178
Balance, end of period	<u>\$ 20,363</u>	<u>\$ 10,700</u>	<u>\$ 9,454</u>

The following tables outline the activity in the allowance for loan losses by collateral type for the years ended December 31, 2020, 2019 and 2018, and show both the allowance and portfolio balances for loans individually and collectively evaluated for impairment as of December 31, 2020, 2019 and 2018 (dollars in thousands).

	December 31, 2020							
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 1,201	\$ 101	\$ 1,490	\$ 387	\$ 4,424	\$ 2,609	\$ 488	\$ 10,700
Charge-offs	—	—	(173)	—	(51)	(1,195)	(335)	(1,754)
Recoveries	47	—	74	—	8	50	78	257
Provision	1,127	334	1,979	202	4,115	3,094	309	11,160
Ending balance	<u>\$ 2,375</u>	<u>\$ 435</u>	<u>\$ 3,370</u>	<u>\$ 589</u>	<u>\$ 8,496</u>	<u>\$ 4,558</u>	<u>\$ 540</u>	<u>\$ 20,363</u>
Ending allowance balance for loans individually evaluated for impairment	—	—	—	—	—	80	130	210
Ending allowance balance for loans acquired with deteriorated credit quality	—	210	—	—	—	—	—	210
Ending allowance balance for loans collectively evaluated for impairment	2,375	225	3,370	589	8,496	4,478	410	19,943
<b>Loans receivable:</b>								
Balance of loans individually evaluated for impairment	782	—	2,280	—	6,666	9,102	347	19,177
Balance of loans acquired with deteriorated credit quality	—	1,701	381	—	1,791	246	38	4,157
Balance of loans collectively evaluated for impairment	205,229	24,846	336,864	60,724	803,938	385,149	20,234	1,836,984
Total period-end balance	<u>\$ 206,011</u>	<u>\$ 26,547</u>	<u>\$ 339,525</u>	<u>\$ 60,724</u>	<u>\$ 812,395</u>	<u>\$ 394,497</u>	<u>\$ 20,619</u>	<u>\$ 1,860,318</u>

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December 31, 2019								
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 1,038	\$ 81	\$ 1,465	\$ 331	\$ 4,182	\$ 1,641	\$ 716	\$ 9,454
Charge-offs	(51)	—	(62)	—	(24)	(252)	(411)	(800)
Recoveries	27	—	27	—	1	26	57	138
Provision	187	20	60	56	265	1,194	126	1,908
Ending balance	<u>\$ 1,201</u>	<u>\$ 101</u>	<u>\$ 1,490</u>	<u>\$ 387</u>	<u>\$ 4,424</u>	<u>\$ 2,609</u>	<u>\$ 488</u>	<u>\$ 10,700</u>
Ending allowance balance for loans individually evaluated for impairment	—	—	—	—	—	—	141	141
Ending allowance balance for loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—
Ending allowance balance for loans collectively evaluated for impairment	1,201	101	1,490	387	4,424	2,609	347	10,559
<b>Loans receivable:</b>								
Balance of loans individually evaluated for impairment	247	—	1,662	—	47	93	498	2,547
Balance of loans acquired with deteriorated credit quality	—	2,264	445	—	1,632	13	38	4,392
Balance of loans collectively evaluated for impairment	197,550	25,516	319,382	60,617	729,381	323,680	28,910	1,685,036
Total period-end balance	<u>\$ 197,797</u>	<u>\$ 27,780</u>	<u>\$ 321,489</u>	<u>\$ 60,617</u>	<u>\$ 731,060</u>	<u>\$ 323,786</u>	<u>\$ 29,446</u>	<u>\$ 1,691,975</u>

December 31, 2018								
	Construction & Development	Farmland	1-4 Family	Multifamily	Commercial Real Estate	Commercial & Industrial	Consumer	Total
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 945	\$ 60	\$ 1,287	\$ 332	\$ 3,599	\$ 693	\$ 975	\$ 7,891
Charge-offs	(24)	—	(167)	—	—	(481)	(513)	(1,185)
Recoveries	12	—	29	—	—	55	82	178
Provision	105	21	316	(1)	583	1,374	172	2,570
Ending balance	<u>\$ 1,038</u>	<u>\$ 81</u>	<u>\$ 1,465</u>	<u>\$ 331</u>	<u>\$ 4,182</u>	<u>\$ 1,641</u>	<u>\$ 716</u>	<u>\$ 9,454</u>
Ending allowance balance for loans individually evaluated for impairment	—	—	—	—	—	—	236	236
Ending allowance balance for loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—
Ending allowance balance for loans collectively evaluated for impairment	1,038	81	1,465	331	4,182	1,641	480	9,218
<b>Loans receivable:</b>								
Balance of loans individually evaluated for impairment	339	—	1,177	—	761	76	916	3,269
Balance of loans acquired with deteriorated credit quality	13	2,264	490	—	2,011	1,195	44	6,017
Balance of loans collectively evaluated for impairment	157,594	19,092	285,470	50,501	624,232	209,653	44,997	1,391,539
Total period-end balance	<u>\$ 157,946</u>	<u>\$ 21,356</u>	<u>\$ 287,137</u>	<u>\$ 50,501</u>	<u>\$ 627,004</u>	<u>\$ 210,924</u>	<u>\$ 45,957</u>	<u>\$ 1,400,825</u>

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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).

	As of and for the year ended December 31, 2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>With no related allowance recorded:</b>					
Construction and development	\$ 782	\$ 800	\$ —	\$ 887	\$ 13
1-4 Family	2,280	2,353	—	2,172	26
Commercial real estate	6,666	6,721	—	3,456	126
Total mortgage loans on real estate	9,728	9,874	—	6,515	165
Commercial and industrial	8,841	9,953	—	4,614	31
Consumer	126	143	—	227	1
Total	18,695	19,970	—	11,356	197
<b>With related allowance recorded:</b>					
Commercial and industrial	261	260	80	22	—
Consumer	221	265	130	256	1
Total	482	525	210	278	1
<b>Total loans:</b>					
Construction and development	782	800	—	887	13
1-4 Family	2,280	2,353	—	2,172	26
Commercial real estate	6,666	6,721	—	3,456	126
Total mortgage loans on real estate	9,728	9,874	—	6,515	165
Commercial and industrial	9,102	10,213	80	4,636	31
Consumer	347	408	130	483	2
Total	\$ 19,177	\$ 20,495	\$ 210	\$ 11,634	\$ 198

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As of and for the year ended December 31, 2019

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>With no related allowance recorded:</b>					
Construction and development	\$ 247	\$ 269	\$ —	\$ 328	\$ 14
1-4 Family	1,662	1,745	—	1,507	32
Multifamily	—	—	—	36	—
Commercial real estate	47	50	—	700	7
Total mortgage loans on real estate	1,956	2,064	—	2,571	53
Commercial and industrial	93	96	—	33	—
Consumer	188	205	—	328	—
Total	2,237	2,365	—	2,932	53
<b>With related allowance recorded:</b>					
Consumer	310	347	141	324	—
Total	310	347	141	324	—
<b>Total loans:</b>					
Construction and development	247	269	—	328	14
1-4 Family	1,662	1,745	—	1,507	32
Multifamily	—	—	—	36	—
Commercial real estate	47	50	—	700	7
Total mortgage loans on real estate	1,956	2,064	—	2,571	53
Commercial and industrial	93	96	—	33	—
Consumer	498	552	141	652	—
Total	\$ 2,547	\$ 2,712	\$ 141	\$ 3,256	\$ 53

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As of and for the year ended December 31, 2018

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>With no related allowance recorded:</b>					
Construction and development	\$ 339	\$ 359	\$ —	\$ 237	\$ 13
1-4 Family	1,177	1,180	—	1,455	39
Commercial real estate	761	777	—	878	20
Total mortgage loans on real estate	2,277	2,316	—	2,570	72
Commercial and industrial	76	77	—	278	—
Consumer	215	237	—	410	—
Total	2,568	2,630	—	3,258	72
<b>With related allowance recorded:</b>					
Consumer	701	738	236	588	—
Total	701	738	236	588	—
<b>Total loans:</b>					
Construction and development	339	359	—	237	13
1-4 Family	1,177	1,180	—	1,455	39
Commercial real estate	761	777	—	878	20
Total mortgage loans on real estate	2,277	2,316	—	2,570	72
Commercial and industrial	76	77	—	278	—
Consumer	916	975	236	998	—
Total	\$ 3,269	\$ 3,368	\$ 236	\$ 3,846	\$ 72

**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 34 credits, totaled approximately \$14.7 million at December 31, 2020, compared to 18 credits totaling \$1.5 million at December 31, 2019. Twelve of the restructured loans were considered TDRs due to modification of terms through adjustments to maturity, eleven 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, three 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. At December 31, 2020, none of the TDRs were in default of their modified terms and included in nonaccrual loans. At December 31, 2019, two of the TDRs were in default of their modified terms and were 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.

At December 31, 2020 and 2019, there were no available balances on loans classified as TDRs that the Company was committed to lend.

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The table below presents the TDR pre- and post-modification outstanding recorded investments by loan categories for loans modified during the years ended December 31, 2020 and 2019 (dollars in thousands).

	December 31, 2020			December 31, 2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<b>Troubled debt restructurings</b>						
Construction and development	1	\$ 64	\$ 64	—	\$ —	\$ —
Commercial Real Estate	8	5,833	5,833	—	—	—
Commercial and industrial	9	7,729	7,729	—	—	—
		\$ 13,626	\$ 13,626		\$ —	\$ —

There were no loans modified under troubled debt restructurings during the previous twelve month period that subsequently defaulted during the year ended December 31, 2020.

The following is a summary of accruing and nonaccrual TDRs and the related loan losses by portfolio type as of the dates presented (dollars in thousands).

	TDRs			Related Allowance
	Accruing	Nonaccrual	Total	
<b>December 31, 2020</b>				
Construction and development	\$ 262	\$ —	\$ 262	\$ —
1-4 Family	665	161	826	—
Commercial real estate	4,895	938	5,833	—
Commercial and industrial	2,195	5,534	7,729	—
Total	\$ 8,017	\$ 6,633	\$ 14,650	\$ —
<b>December 31, 2019</b>				
Construction and development	\$ 220	\$ 287	\$ 507	\$ —
1-4 Family	800	176	976	—
Total	\$ 1,020	\$ 463	\$ 1,483	\$ —

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The table below includes the average recorded investment and interest income recognized for TDRs for the years ended December 31, 2020, 2019 and 2018 (dollars in thousands).

	TDRs	
	Average Recorded Investment	Interest Income Recognized
<b>December 31, 2020</b>		
Construction and development	\$ 438	\$ 14
1-4 Family	936	35
Commercial real estate	2,778	126
Commercial and industrial	1,075	53
Total	<u>\$ 5,227</u>	<u>\$ 228</u>
<b>December 31, 2019</b>		
Construction and development	\$ 515	\$ 14
1-4 Family	1,014	51
Commercial real estate	264	7
Commercial and industrial	2	—
Total	<u>\$ 1,795</u>	<u>\$ 72</u>
<b>December 31, 2018</b>		
Construction and development	\$ 308	\$ 13
1-4 Family	948	45
Commercial real estate	553	20
Commercial and industrial	8	—
Consumer	2	—
Total	<u>\$ 1,819</u>	<u>\$ 78</u>

**NOTE 5. OTHER REAL ESTATE OWNED**

The table below shows the activity in other real estate owned for the years ended December 31, 2020 and 2019 (dollars in thousands).

	December 31,	
	2020	2019
Balance, beginning of period	\$ 133	\$ 3,611
Additions	41	181
Transfers from bank premises and equipment	665	—
Acquired other real estate owned	—	1,507
Sales of other real estate owned	(146)	(5,148)
Write-downs	(30)	(18)
Balance, end of period	<u>\$ 663</u>	<u>\$ 133</u>

For the years ended December 31, 2020 and 2019, additions to other real estate owned of \$41,000 and \$133,000, respectively, were related to acquired loans. After the closure of a branch location in 2020, the land and building were transferred from bank premises and equipment to other real estate owned as the Company does not intend to use the property for operations. At December 31, 2020, approximately \$1.7 million of loans secured by real estate were in the process of foreclosure.



## NOTE 6. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following as of the dates indicated (dollars in thousands).

	December 31,	
	2020	2019
Land	\$ 13,530	\$ 13,851
Buildings and improvements	37,947	31,926
Furniture and equipment	13,196	10,915
Software	1,990	1,373
Construction-in-progress	1,619	1,974
Right-of-use asset	3,851	3,309
Less: Accumulated depreciation and amortization	(15,830)	(12,432)
Bank premises and equipment, net	\$ 56,303	\$ 50,916

Depreciation and amortization related to bank premises and equipment charged to noninterest expense was approximately \$3.6 million, \$2.6 million and \$2.1 million for the years ended December 31, 2020, 2019 and 2018, respectively.

## NOTE 7. 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 assumed lease agreements as part of its expansion into Texas. Two of the three branches acquired from Mainland in 2019 and the two branches acquired from PlainsCapital in 2020 are leased properties. In addition, the Company has lease agreements for a de novo branch in the Lafayette, Louisiana market, which opened in 2019, and a branch location opened in the New Orleans, Louisiana market in 2020. 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 years ended December 31, 2020 and 2019 (dollars in thousands).

	December 31,	
	2020	2019
Total operating lease cost	\$ 599	\$ 341
Weighted-average remaining lease term (in years)	8.6	10.4
Weighted-average discount rate	2.8 %	3.1 %

As of December 31, 2020, the Company's lease ROU assets and related lease liabilities were both \$3.9 million 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 December 31, 2020 are presented below (dollars in thousands).

2021	\$	593
2022		598
2023		595
2024		515
2025		476
Thereafter		1,691
<b>Total</b>	<b>\$</b>	<b>4,468</b>

At December 31, 2020, 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 \$0.2 million for the year ended December 31, 2020. For the year ended December 31, 2019, the Bank recognized \$8,000 in rental income.

#### NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company's intangible assets consist of goodwill, core deposit intangible assets arising from acquisitions, and a trademark intangible. At December 31, 2020 and 2019, goodwill and other intangible assets totaled \$32.2 million and \$31.0 million, respectively, and included no accumulated impairment losses.

Additions and adjustments to goodwill were recorded during the years ended December 31, 2020 and 2019 as a result of the acquisitions discussed in Note 2, Business Combinations. The carrying amount of goodwill at December 31, 2020 and 2019 was \$28.1 million and \$26.1 million, respectively. The trademark intangible had a carrying value of \$0.1 million at December 31, 2020 and 2019.

In accordance with ASC 350, Intangibles-Goodwill and Other, the Company reviews the carrying value of indefinite-lived intangible assets at least annually, or more frequently if certain impairment indicators exist. The Company performed its annual impairment testing on October 31, 2020 and determined that there was no impairment to its goodwill or trademark intangible asset.

Core deposit intangibles have finite lives and are being amortized over their estimated useful lives, which range from 10 to 15 years. The table below shows a summary of the core deposit intangible assets as of the dates presented (dollars in thousands).

<b>Core deposit intangibles</b>	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Gross carrying amount	\$ 6,637	\$ 6,467
Accumulated amortization	(2,649)	(1,664)
<b>Net carrying amount</b>	<b>\$ 3,988</b>	<b>\$ 4,803</b>

Amortization expense for the core deposit intangible assets recorded in depreciation and amortization totaled approximately \$1.0 million, \$0.8 million, and \$0.5 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The future amortization schedule for the Company's core deposit intangible assets is displayed in the table below. The weighted average amortization period remaining for core deposit intangibles is 7.8 years.

(dollars in thousands)

2021	\$	882
2022		773
2023		663
2024		554
2025		444
Thereafter		672
	<u>\$</u>	<u>3,988</u>

#### NOTE 9. DEPOSITS

Deposits consisted of the following as of the dates presented (dollars in thousands).

	December 31,	
	2020	2019
Noninterest-bearing demand deposits	\$ 448,230	\$ 351,905
Interest-bearing demand deposits	496,745	335,478
Brokered deposits	80,017	—
Money market deposit accounts	186,307	198,999
Savings accounts	141,134	115,324
Time deposits	535,391	706,000
Total deposits	<u>\$ 1,887,824</u>	<u>\$ 1,707,706</u>

The table below summarizes outstanding time deposits as of the dates indicated (dollars in thousands).

	December 31,	
	2020	2019
\$0 to \$99,999	\$ 161,957	\$ 225,951
\$100,000 to \$249,999	274,470	345,040
\$250,000 and above	98,964	135,009
	<u>\$ 535,391</u>	<u>\$ 706,000</u>

The contractual maturities of time deposits of \$100,000 or more outstanding are summarized in the table below as of the dates presented (dollars in thousands).

	December 31,	
	2020	2019
<b>Time remaining until maturity:</b>		
Three months or less	\$ 80,605	\$ 92,157
Over three through six months	75,974	76,179
Over six through twelve months	111,879	200,654
Over one year through three years	94,178	95,495
Over three years	10,798	15,564
	<u>\$ 373,434</u>	<u>\$ 480,049</u>

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The approximate scheduled maturities of time deposits for each of the next five years are shown below (dollars in thousands).

2021	\$	382,713
2022		103,488
2023		33,247
2024		10,785
2025		5,158
	<u>\$</u>	<u>535,391</u>

Public fund deposits as of December 31, 2020 and 2019 totaled approximately \$86.6 million and \$103.4 million, respectively. The funds were secured by securities with a fair value of approximately \$72.7 million and \$89.4 million as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, total deposits outstanding to executive officers, principal shareholders, directors and to companies in which they are principal owners amounted to approximately \$38.8 million and \$76.3 million, respectively.

**NOTE 10. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

We utilize securities sold under agreements to repurchase (“repurchase agreements”) to facilitate the needs of our customers and to facilitate secured short-term funding needs. Repurchase agreements are stated at the amount of cash received in connection with the transaction. We monitor collateral levels on a continuous basis. We may be required to provide additional collateral based on the fair value of the underlying securities. Securities pledged as collateral under repurchase agreements are maintained with our safekeeping agents.

Repurchase agreements mature on a daily basis. The total balance of repurchase agreements was \$5.7 million and \$3.0 million at December 31, 2020 and December 31, 2019, respectively. These funds were secured by investment securities with fair values of approximately \$6.3 million and \$2.9 million at December 31, 2020 and December 31, 2019, respectively. The interest rate paid for repurchase agreements is tiered, based on balance, and is indexed to the Federal Funds Rate. The weighted average interest rate on repurchase agreements was 0.20% and 0.75% at December 31, 2020 and December 31, 2019, respectively. The weighted-average rate paid for repurchase agreements during the years ended December 31, 2020, 2019 and 2018 was 0.30%, 1.32% and 0.99%, respectively.

**NOTE 11. SUBORDINATED DEBT SECURITIES**

On November 12, 2019, the Company issued and sold \$25.0 million in aggregate principal amount of its 5.125% Fixed-to-Floating Rate Subordinated Notes (the “2029 Notes”) due December 30, 2029. Beginning on December 30, 2024, the Company may redeem the 2029 Notes, in whole or in part, at their principal amount plus any accrued and unpaid interest. The 2029 Notes bear an interest rate of 5.125% per annum until December 30, 2024, on which date the interest rate will reset quarterly to an annual interest rate equal to the then-current three-month LIBOR as calculated on each applicable date of determination, or an alternative rate determined in accordance with the terms of the 2029 Notes if the three-month LIBOR cannot be determined, plus 349.0 basis points.

On March 24, 2017, the Company issued and sold \$18.6 million in aggregate principal amount of its 6.00% Fixed-to-Floating Rate Subordinated Notes (the “2027 Notes”) due March 30, 2027. Beginning on March 30, 2022, the Company may redeem the 2027 Notes, in whole or in part, at their principal amount plus any accrued and unpaid interest. The 2027 Notes bear an interest rate of 6.00% per annum until March 30, 2022, on which date the interest rate will reset quarterly to an annual interest rate equal to the then-current LIBOR plus 394.5 basis points.

The carrying value of subordinated debt was \$42.9 million and \$42.8 million at December 31, 2020 and 2019, respectively. The subordinated debt securities were recorded net of issuance costs of \$0.7 million and \$0.8 million at December 31, 2020 and 2019, respectively, which are being amortized using the straight-line method over the lives of the respective securities.

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**NOTE 12. OTHER BORROWED FUNDS**

***Federal Home Loan Bank Advances***

FHLB advances and weighted average interest rates at the end of the period by contractual maturity are summarized as of the dates presented (dollars in thousands).

	Amount		Weighted Average Rate	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Fixed rate advances maturing:				
2020	\$ —	\$ 53,100	— %	1.74 %
2021	42,000	—	0.11	—
2024	23,500	23,500	1.81	1.81
2028	25,000	25,000	1.77	1.77
2033	30,000	30,000	1.88	1.88
	<u>\$ 120,500</u>	<u>\$ 131,600</u>	<u>1.23 %</u>	<u>1.79 %</u>

As of December 31, 2020, these advances are collateralized by approximately \$775.7 million of the Company's loan portfolio and \$9.0 million of the Company's investment securities in accordance with the Advance Security and Collateral Agreement with the FHLB. As of December 31, 2020, the Company had an additional \$654.9 million available under its line of credit with the FHLB.

At December 31, 2020 and 2019, the FHLB advances contractually maturing in 2028 and 2033 are fixed rate, nonamortizing puttable advances. Under the terms of these advances, the Bank sells the FHLB options to terminate the fixed rate advances at specified points in time prior to the stated maturity dates. The FHLB may terminate the advances on quarterly option exercise dates until maturity.

***Lines of Credit***

In addition, the Company has outstanding unsecured lines of credit with its correspondent banks available to assist in the management of short-term liquidity. Any balances drawn on these lines of credit mature daily. At December 31, 2020 and 2019, the available balance on the unsecured lines of credit totaled approximately \$60.0 million, with no outstanding balance reflected on the consolidated balance sheets.

***Junior Subordinated Debt***

The following table provides a summary of the Company's junior subordinated debentures (dollars in thousands).

	Face Value	Carrying Value	Maturity Date	Variable Interest Rate	Interest Rate at December 31, 2020
First Community Louisiana Statutory Trust I	\$ 3,609	\$ 3,609	June 2036	3-month LIBOR + 1.77%	1.99 %
BOJ Bancshares Statutory Trust I	3,093	2,340	December 2034	3-month LIBOR + 1.90%	2.12 %
	<u>\$ 6,702</u>	<u>\$ 5,949</u>			

These debentures are unsecured obligations due to trusts that are unconsolidated subsidiaries. The debentures were issued in conjunction with the trusts' issuances of obligated capital securities. The trusts used the proceeds from the issuances of their capital securities to buy floating rate junior subordinated deferrable interest debentures that bear the same interest rate and terms as the capital securities. These debentures are the trusts' only assets and the interest payments from the debentures finance the distributions paid on the capital securities. These debentures rank junior and are subordinate in the right of payment to all other debt of the Company.

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As part of the purchase accounting adjustments made with the BOJ Bancshares Inc. acquisition on December 1, 2017, the Company adjusted the carrying value of the BOJ Bancshares Statutory Trust I junior subordinated debentures to fair value as of the acquisition date. The discount on the debentures will continue to be amortized through maturity and recognized as a component of interest expense.

The debentures may be called by the Company at par plus any accrued interest. Interest on the debentures is calculated quarterly. The distribution rate payable on the capital securities is cumulative and payable quarterly in arrears. The Company has the right to defer payments of interest on the debentures at any time by extending the interest payment period for a period not exceeding 20 consecutive quarters with respect to each deferral period, provided that no extension period may extend beyond the redemption or maturity date of the debentures.

The debentures are included on the consolidated balance sheets as liabilities; however, for regulatory purposes, the carrying values of these obligations are eligible for inclusion in Tier I regulatory capital, subject to certain limitations. The total carrying value of \$5.9 million was allowed in the calculation of Tier I regulatory capital at both December 31, 2020 and 2019.

**NOTE 13. 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 9.6 years. As of 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 \$140.0 million, all of which were designated as cash flow hedges, compared to one interest rate swap agreement with a notional amount of \$50.0 million at December 31, 2019. 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 year ended December 31, 2020, a loss of \$2.3 million, net of a \$0.6 million tax benefit, was recognized in “Other comprehensive (loss) income” (“OCI”) in the accompanying consolidated statements of other comprehensive income for the change in fair value of the interest rate swap contracts. For the years ended December 31, 2019 and December 31, 2018, a gain of \$51,000, net of a \$14,000 tax expense, and a gain of \$84,000, net of a \$22,000 tax expense, respectively, was recognized in OCI in the accompanying consolidated statements of other comprehensive income for the change in fair value of the interest rate swap contracts.

The fair value of the swap contracts consisted of gross liabilities of \$2.8 million and gross assets of \$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 swap contract had a fair value of \$0.7 million and is included in “Other assets” in the accompanying consolidated balance sheet at December 31, 2019. The accumulated loss of \$1.8 million included in “Accumulated other comprehensive income” in the accompanying consolidated balance sheets would be reclassified to current earnings if the hedge transaction becomes probable of not occurring. The Company expects the hedges to remain fully effective during the remaining terms 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 years ended December 31, 2020, 2019 and 2018.

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**NOTE 14. STOCKHOLDERS' EQUITY**

***Preferred Stock***

The Company's Articles of Incorporation give the Company's board of directors the authority to issue up to 5,000,000 shares of preferred stock. At December 31, 2020, there were no preferred shares outstanding. The preferred shares are considered "blank check" preferred stock. This type of preferred stock allows the board of directors to fix the designations, preferences and relative, participating, optional or other special rights, and qualifications and limitations or restrictions of any series of preferred stock without further shareholder approval.

***Common Stock***

The Company's Articles of Incorporation give the Company's board of directors the authority to issue up to 40,000,000 shares of common stock. At December 31, 2020, there were 10,608,869 common shares outstanding compared to 11,228,775 and 9,484,219 at December 31, 2019 and 2018, respectively.

On March 1, 2019, the Company issued 763,849 shares of its common stock as consideration for the acquisition of Mainland. On December 20, 2019 the Company completed a private placement of 1,290,323 shares of its common stock at a price of \$23.25 per share. The private offering generated net proceeds of \$28.5 million.

In addition, the Company repurchased 661,504 and 359,906 shares of its common stock through its stock repurchase program at an average price of \$16.75 and \$23.09 during the years ended December 31, 2020 and 2019, respectively.

*Dividend Restrictions.* In the ordinary course of business, the Company is dependent upon dividends from the Bank to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years. Under the foregoing dividend restrictions and while maintaining its "well capitalized" status, at December 31, 2020, the Bank could pay aggregate dividends of up to \$44.3 million to the Company without prior regulatory approval.

Under the terms of the junior subordinated debentures, assumed through acquisition, the Company has the right at any time during the term of the debentures to defer the payment of interest. In the event that the Company elects to defer interest on the debentures, it may not, with certain exceptions, declare or pay any dividends or distributions on its common stock or purchase or acquire any of its common stock.

Under the terms of the Company's 5.125% Fixed -to-Floating Rate Subordinated Notes due 2029, the Company may not pay a dividend if either the parent company 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 purposes (but with respect to the parent company, only if it is required to measure and report such ratios on a consolidated basis under applicable law). The Company is also prohibited from paying dividends upon and during the continuance of any Event of Default under such notes.

These restrictions do not, and are not expected in the future to, materially limit the Company's ability to pay dividends to its shareholders in an amount consistent with the Company's history of paying dividends.

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***Accumulated Other Comprehensive Income (Loss)***

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

	For the years ended December 31,								
	2020			2019			2018		
	Beginning of Period	Net Change	End of Period	Beginning of Period	Net Change	End of Period	Beginning of Period	Net Change	End of Period
Unrealized gain (loss), available for sale, net	\$ 3,476	\$ 4,017	\$ 7,493	\$ (1,647)	\$ 5,123	\$ 3,476	\$ (71)	\$ (1,576)	\$ (1,647)
Reclassification of realized gain, net	(2,131)	(1,808)	(3,939)	(1,925)	(206)	(2,131)	(1,914)	(11)	(1,925)
Unrealized loss, transfer from available for sale to held to maturity, net	4	(1)	3	5	(1)	4	7	(2)	5
Change in fair value of interest rate swap designated as a cash flow hedge, net	542	(2,294)	(1,752)	491	51	542	407	84	491
Accumulated other comprehensive income (loss)	<u>\$ 1,891</u>	<u>\$ (86)</u>	<u>\$ 1,805</u>	<u>\$ (3,076)</u>	<u>\$ 4,967</u>	<u>\$ 1,891</u>	<u>\$ (1,571)</u>	<u>\$ (1,505)</u>	<u>\$ (3,076)</u>

**NOTE 15. STOCK-BASED COMPENSATION**

*Equity Incentive Plan.* The Company's 2017 Long-Term Incentive Compensation Plan (the "Plan") authorizes the grant of various types of equity awards, such as restricted stock, restricted stock units, stock options and stock appreciation rights to eligible participants, which include all of the Company's employees, non-employee directors, and consultants. The Plan has reserved 600,000 shares of common stock for issuance to eligible participants pursuant to equity awards under the Plan. The Plan is administered by the Compensation Committee of the Company's board of directors, which determines, within the provisions of the Plan, those eligible employees to whom, and the times at which, equity awards will be granted. The Compensation Committee, in its discretion, may delegate its authority and duties under the Plan to specified officers; however, only the Compensation Committee may approve the terms of equity awards to the Company's executive officers and directors. At December 31, 2020, approximately 242,408 shares remain available for grant.

***Stock Options***

During the years ended December 31, 2020, 2019 and 2018, the Company granted 58,993, 36,984 and 31,788 stock options, respectively, to key personnel that vest in one-fifth increments on each of the first five anniversaries of the grant date.



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The table below summarizes the Company's stock option activity for the periods indicated.

**Stock Options**

	Shares	Weighted Average Price	Weighted Average Remaining Contractual Term (Years)
<b>Outstanding at December 31, 2017</b>	<b>322,917</b>	<b>\$ 15.09</b>	<b>7.19</b>
Granted	31,788	20.25	
Forfeited	(1,644)	14.00	
Exercised	(12,415)	14.07	
<b>Outstanding at December 31, 2018</b>	<b>340,646</b>	<b>15.98</b>	<b>6.49</b>
Granted	36,984	24.40	
Forfeited	—	—	
Exercised	(20,416)	14.06	
<b>Outstanding at December 31, 2019</b>	<b>357,214</b>	<b>16.96</b>	<b>5.93</b>
Granted	58,993	16.96	
Forfeited	(4,585)	21.36	
Exercised	(3,334)	14.00	
<b>Outstanding at December 31, 2020</b>	<b>408,288</b>	<b>17.66</b>	<b>5.57</b>
Exercisable at December 31, 2020	276,855	15.67	4.47

The aggregate intrinsic value of stock options is calculated as the aggregate difference between the exercise price of the stock options and the fair market value of the Company's common stock for those stock options having an exercise price lower than the fair market value of the Company's common stock. At December 31, 2020, the shares underlying outstanding and exercisable stock options had an intrinsic value of \$0.5 million.

The Company uses a Black-Scholes option pricing model to estimate the fair value of stock-based awards. The Black-Scholes option pricing model incorporates various subjective assumptions, including expected term and expected volatility. Stock option expense in the accompanying consolidated statements of income for the years ended December 31, 2020, 2019, and 2018 was \$0.2 million, \$0.3 million and \$0.3 million, respectively. At December 31, 2020, there was \$0.6 million of unrecognized compensation cost related to stock options that is expected to be recognized over a weighted average period of 3.3 years.

The table below shows the assumptions used for the stock options granted during the years ended December 31, 2020 and 2019.

	2020	2019
Dividend yield	1.12 %	0.82 %
Expected volatility	26.39 %	27.26 %
Risk-free interest rate	0.99 %	2.63 %
Expected term (in years)	6.5	6.5
Weighted-average grant date fair value	\$ 5.17	\$ 7.30

**Restricted Stock and Restricted Stock Units**

Under the Plan, the Company may grant restricted stock, restricted stock units, and other stock-based awards to Plan participants, subject to forfeiture upon the occurrence of certain events until the dates specified in the participant's award agreement. While restricted stock is subject to forfeiture, holders of restricted stock may exercise full voting rights and will receive all dividends paid with respect to the restricted shares. Restricted stock units ("RSUs") do not have voting rights and do not receive dividends or dividend equivalents. The restricted stock and RSUs granted under the Plan are typically subject to a vesting period. Compensation expense for restricted stock and RSUs is determined based on the market price of the Company's common stock at the grant date and is applied to the total number of shares or units granted and is recognized on a straight-line basis over the requisite service period of generally five years for employees and two years for non-employee directors. Upon vesting of restricted stock and RSUs, the benefit of tax deductions in excess of recognized compensation expense is reflected as an income tax benefit in the Consolidated Statements of Income.

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Historically, the Company has granted restricted stock awards to Plan participants. Beginning in 2019, the Company granted time vested RSUs to its non-employee directors and certain officers of the Company with vesting terms ranging from two years to five years.

The Company granted a total of 102,953 RSUs to employees and directors for the year ended December 31, 2020. Of the RSUs issued in 2020, 91,268 shares will vest over five years and 11,685 shares will vest over two years.

The Company granted a total of 79,439 shares of RSUs to employees and directors for the year ended December 31, 2019. Of the RSUs issued in 2019, 68,430 shares will vest over five years and 11,009 shares will vest over two years.

The Company granted a total of 60,260 shares of restricted stock to employees for the year ended December 31, 2018. Of the restricted stock issued in 2018, 51,263 shares will vest over five years and 8,997 shares will vest over two years.

Compensation expense related to restricted stock and RSUs in the accompanying consolidated statements of income for the years ended December 31, 2020, 2019, and 2018 was \$1.4 million, \$1.1 million and \$0.8 million, respectively. The unearned compensation related to these awards is amortized to compensation expense over the vesting period. As of December 31, 2020, 2019 and 2018, unearned stock-based compensation associated with these awards totaled approximately \$3.4 million, \$2.8 million and \$2.1 million, respectively. The \$3.4 million of unrecognized compensation cost related to time vested restricted stock and RSUs at December 31, 2020 is expected to be recognized over a weighted average period of 3.3 years.

The following table summarizes the restricted stock and RSU activity for the years ended December 31, 2020 and December 31, 2019.

	December 31,			
	2020		2019	
	Shares	Weighted Avg Grant Date Fair Value	Shares	Weighted Avg Grant Date Fair Value
Balance, beginning of period	168,216	\$ 22.43	135,848	\$ 20.47
Granted	102,953	21.41	79,439	24.46
Forfeited	(10,283)	22.16	(5,828)	23.70
Earned and issued	(53,740)	21.29	(41,243)	19.65
Balance, end of period	207,146	\$ 22.23	168,216	\$ 22.43

**NOTE 16. EMPLOYEE BENEFIT PLANS**

The Company maintains a 401(k) defined contribution plan (the “401(k) Plan”) which covers employees over the age of twenty-one who have completed three months of credited service, as defined by the 401(k) Plan. The 401(k) Plan allows employees to defer a percentage of their salaries subject to certain limits based on federal tax laws. The Company makes matching contributions up to 4% of the employee’s annual salary (subject to certain maximum compensation amounts as prescribed in Internal Revenue Service guidance). Contributions by the Company and participants are immediately vested. Employer matching contributions to the 401(k) Plan for the years ended December 31, 2020, 2019 and 2018 were approximately \$0.9 million, \$0.8 million and \$0.7 million, respectively, and are included in salaries and employee benefits on the consolidated statements of income.

The 401(k) Plan also allows for discretionary Company contributions in the form of cash or Company stock. Contributions in the form of Company stock are held in a portion of the 401(k) Plan that qualifies as an employee stock ownership plan. The Company made a \$0.2 million Company stock contribution in both the years ended December 31, 2020 and 2019. The discretionary components vest in increments of 20% annually over a period of five years based on the employees’ years of service, beginning upon completion of two years of service (such that an employee with six years of service will be 100% vested).

In 2018, 2019 and 2020, the Bank entered into Salary Continuation Agreements (“SCA”) with certain of the Company’s officers. The SCAs represent unfunded, non-qualified deferred compensation arrangements under the Internal Revenue Code of 1986, as amended. The SCAs between the Bank and each officer, as supplemented if applicable, provide that the officer shall receive annual payments of a fixed amount upon attaining the age of 65, with such payments payable monthly over a period of 120 months (10 years). Each officer is also entitled to certain reduced payments following a termination of employment prior to

attaining age 65 (other than a termination due to death or with cause), which payments shall be made on the same schedule mentioned above.

The Company maintained a deferred compensation plan for a former employee of First Community Bank, a bank acquired by the Company in 2013. A single premium immediate annuity policy was purchased of which the former employee is the beneficiary. Under this policy, the beneficiary received monthly payments of \$2,000 through 2020. The Company also maintains a deferred compensation plan for a former employee of Citizens Bank (“Citizens”), a liability for which was assumed in the Citizens acquisition in 2017. Under the deferred compensation agreement, the former employee will receive monthly payments of \$2,000 through May of 2030. At December 31, 2020 and 2019, the Company had a liability of \$1.9 million and \$1.6 million, respectively, in Accrued taxes and other liabilities on the consolidated balance sheets related to these deferred compensation plans.

#### NOTE 17. INCOME TAXES

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

The income tax expense included in the consolidated statements of income is displayed in the table below for the years ended December 31, 2020, 2019 and 2018 (dollars in thousands).

	December 31,		
	2020	2019	2018
Current	\$ 4,838	\$ 3,966	\$ 2,789
Deferred	(1,388)	153	841
Total income tax expense	<u>\$ 3,450</u>	<u>\$ 4,119</u>	<u>\$ 3,630</u>

The Company’s income tax expense for the year ended December 31, 2018 includes total charges of \$0.3 million related to the revaluation of its deferred tax assets and liabilities as a result of the TCJA.

The provision for federal income taxes differs from that computed by applying the federal statutory rate of 21% as indicated in the following analysis for the years ended December 31, 2020, 2019 and 2018 (dollars in thousands).

	December 31,		
	2020	2019	2018
Tax based on statutory rate	\$ 3,641	\$ 4,401	\$ 3,619
Increase (decrease) resulting from:			
Effect of tax-exempt income	(299)	(250)	(249)
Acquisition costs	—	32	29
Historical tax credits	29	6	6
Effect of tax rate change	—	—	338
State taxes	33	15	—
Other	46	(85)	(113)
Total income tax expense	<u>\$ 3,450</u>	<u>\$ 4,119</u>	<u>\$ 3,630</u>
Effective rate	19.9 %	19.7 %	21.1 %

The Company records deferred income tax on the tax effect of changes in timing differences.

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The net deferred tax liability or asset was comprised of the following items as of the dates indicated (dollars in thousands).

	December 31,	
	2020	2019
<b>Deferred tax liabilities:</b>		
Depreciation	\$ (3,746)	\$ (2,903)
FHLB stock dividend	(63)	(122)
Unrealized gain on available for sale securities	(480)	(502)
Basis difference in acquired assets and liabilities	(1,010)	(1,123)
Operating lease right-of-use asset	(809)	(695)
Other	(149)	(88)
Gross deferred tax liability	(6,257)	(5,433)
<b>Deferred tax assets:</b>		
Allowance for loan losses	4,012	2,219
Net operating loss carryforward	440	564
Deferred compensation	404	372
Basis difference in acquired assets and liabilities	380	481
Historical tax credit	—	155
Employee and director stock awards	524	419
Operating lease liability	828	709
Unearned loan fees	667	190
Other	362	229
Gross deferred tax assets	7,617	5,338
Net deferred tax asset (liability)	\$ 1,360	\$ (95)

The Company acquired net operating loss (“NOL”) carryforwards through tax free acquisitions. As of December 31, 2020 and December 31, 2019, the Company’s gross NOL carryforwards were approximately \$2.1 million and \$2.7 million, respectively. As of December 31, 2020, \$0.4 million and \$1.7 million of the NOL carryforwards expire in 2033 and 2039, respectively. All available NOL carryforwards are expected to be fully utilized by 2023.

The Company files income tax returns under U.S. federal jurisdiction and the states of Alabama, Florida, Texas and Louisiana, although the state of Louisiana does not assess an income tax on income resulting from banking operations. The Company is open to examination in the U.S. and the state of Louisiana for tax years ended December 31, 2017 through December 31, 2020; and Alabama, Texas and Florida for tax years ended December 31, 2019 and December 31, 2020.

**NOTE 18. FAIR VALUES OF FINANCIAL INSTRUMENTS**

In accordance with FASB 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.

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*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.

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. In the fourth quarter of 2019, the Company transferred approximately \$1.3 million of corporate bonds from level 3 to level 2 based on reported trades of similar securities. At December 31, 2020, 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.

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*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 flows analyses based on the Company’s current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company’s long-term debt is therefore classified in level 3 in the fair value hierarchy.

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

*Fair Value of Assets and Liabilities Measured on a Recurring Basis*

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2020</b>				
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	<u>\$ 270,080</u>	<u>\$ 1,670</u>	<u>\$ 249,894</u>	<u>\$ 18,516</u>
Liabilities:				
Derivative financial instruments	\$ 2,216	\$ —	\$ 2,216	\$ —
<b>December 31, 2019</b>				
Assets:				
Obligations of U.S. government agencies and corporations	\$ 33,651	\$ —	\$ 33,651	\$ —
Obligations of state and political subdivisions	33,449	—	14,074	19,375
Corporate bonds	19,163	—	19,163	—
Residential mortgage-backed securities	101,946	—	101,946	—
Commercial mortgage-backed securities	71,596	—	71,596	—
Equity securities	2,097	2,097	—	—
Derivative financial instruments	687	—	687	—
Total assets	<u>\$ 262,589</u>	<u>\$ 2,097</u>	<u>\$ 241,117</u>	<u>\$ 19,375</u>

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Equity securities balances in the table above do not reflect balances of stock held in correspondent banks.

The Company reviews fair value hierarchy classifications on a quarterly basis. Changes in the Company's ability to observe inputs to the valuation may cause reclassification of certain assets or liabilities within the fair value hierarchy. The table below provides a reconciliation for assets measured at fair value on a recurring basis using significant unobservable inputs, or level 3 inputs (dollars in thousands).

	Obligations of State and Political Subdivisions	Corporate Bonds	Total
<b>Balance at December 31, 2018</b>	\$ 18,808	\$ 1,335	\$ 20,143
Realized gains (losses) included in net income	—	—	—
Unrealized gains included in other comprehensive (loss) income	590	—	590
Purchases	—	—	—
Sales	—	—	—
Maturities, prepayments, and calls	(23)	—	(23)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	(1,335)	(1,335)
<b>Balance at December 31, 2019</b>	\$ 19,375	\$ —	\$ 19,375
Realized gains (losses) included in net income	—	—	—
Unrealized losses included in other comprehensive (loss) income	(859)	—	(859)
Purchases	—	—	—
Sales	—	—	—
Maturities, prepayments, and calls	—	—	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
<b>Balance at December 31, 2020</b>	\$ 18,516	\$ —	\$ 18,516

There were no liabilities measured at fair value on a recurring basis using level 3 inputs at December 31, 2020 and 2019. For the years ended December 31, 2020, 2019 and 2018, 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 December 31, 2020 (dollars in thousands):

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Discounts
<b>December 31, 2020</b>				
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 <sup>(1)</sup>	0% - 0.4%

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

**INVESTAR HOLDING CORPORATION**  
**Notes to Consolidated Financial Statements**

*Fair Value of Assets Measured on a Nonrecurring Basis*

Quantitative information about assets measured at fair value on a nonrecurring basis based on significant unobservable inputs (level 3) are summarized below as of the dates indicated; there were no liabilities measured on a nonrecurring basis at December 31, 2020 or 2019 (dollars in thousands).

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Discounts	Weighted Average Discount
<b>December 31, 2020</b>					
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%
<b>December 31, 2019</b>					
Impaired loans	\$ 55	Discounted cash flows, Underlying collateral value	Collateral discounts and estimated costs to sell	0% - 100%	31%

The estimated fair values of the Company's financial instruments at December 31, 2020 and December 31, 2019 are shown below (dollars in thousands).

	December 31, 2020				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
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
<b>Financial liabilities:</b>					
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**  
**Notes to Consolidated Financial Statements**

	December 31, 2019				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Cash and due from banks	\$ 44,308	\$ 44,308	\$ 44,308	\$ —	\$ —
Federal funds sold	387	387	387	—	—
Investment securities	274,214	274,285	—	245,410	28,875
Equity securities	19,315	19,316	2,097	17,219	—
Loans, net of allowance	1,681,275	1,680,364	—	—	1,680,364
Derivative financial instruments	687	687	—	687	—
<b>Financial liabilities:</b>					
Deposits, noninterest-bearing	\$ 351,905	\$ 351,905	\$ —	\$ 351,905	\$ —
Deposits, interest-bearing	1,355,801	1,368,194	—	—	1,368,194
FHLB short-term advances and repurchase agreements	56,095	56,095	—	56,095	—
FHLB long-term advances	78,500	76,635	—	—	76,635
Junior subordinated debt	5,897	7,747	—	—	7,747
Subordinated debt	43,600	56,399	—	56,399	—

**NOTE 19. REGULATORY MATTERS**

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Common Equity Tier 1, and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and Tier 1 capital to average assets (as defined).

As of December 31, 2020 and 2019, the Bank was considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum risk-based and Tier 1 leverage capital ratios as set forth in the table below and not be subject to a written agreement or order with regulators to maintain a specific capital level for any capital measure. There are no conditions or events since the regulatory framework for prompt corrective action was issued that management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2020 and December 31, 2019 are presented in the tables below (dollars in thousands).

**INVESTAR HOLDING CORPORATION**  
**Notes to Consolidated Financial Statements**

	Actual		Capital Adequacy*		Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2020</b>						
<b>Tier 1 leverage capital</b>						
Investar Holding Corporation	\$ 215,750	9.49 %	\$ 90,975	4.00 %	NA	NA
Investar Bank	237,684	10.47	90,837	4.00	113,546	5.00
<b>Common Equity Tier 1 risk-based capital</b>						
Investar Holding Corporation	209,250	11.02	132,890	7.00	NA	NA
Investar Bank	237,684	12.53	132,750	7.00	123,268	6.50
<b>Tier 1 risk-based capital</b>						
Investar Holding Corporation	215,750	11.36	161,366	8.50	NA	NA
Investar Bank	237,684	12.53	161,196	8.50	151,714	8.00
<b>Total risk-based capital</b>						
Investar Holding Corporation	279,253	14.71	199,335	10.50	NA	NA
Investar Bank	258,291	13.62	199,125	10.50	189,642	10.00
<b>December 31, 2019</b>						
<b>Tier 1 leverage capital</b>						
Investar Holding Corporation	\$ 215,550	10.45 %	\$ 82,546	4.00 %	NA	NA
Investar Bank	222,316	10.77	82,578	4.00	103,223	5.00
<b>Common Equity Tier 1 risk-based capital</b>						
Investar Holding Corporation	209,050	11.67	125,412	7.00	NA	NA
Investar Bank	222,316	12.43	125,238	7.00	116,293	6.50
<b>Tier 1 risk-based capital</b>						
Investar Holding Corporation	215,550	12.03	152,286	8.50	NA	NA
Investar Bank	222,316	12.43	152,074	8.50	143,130	8.00
<b>Total risk-based capital</b>						
Investar Holding Corporation	269,171	15.02	188,118	10.50	NA	NA
Investar Bank	233,111	13.03	187,857	10.50	178,912	10.00

\*The minimum ratios and amounts under the column for Capital Adequacy for December 31, 2020 and December 31, 2019 reflect the minimum regulatory capital ratios imposed under Basel III plus the fully phased-in capital conservation buffer of 2.5%.

Applicable Federal statutes and regulations impose restrictions on the amounts of dividends that may be declared by the Company and the Bank. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of the Company's and the Bank's total capital in relation to its assets, deposits and other such items and, as a result, capital adequacy considerations could further limit the availability of dividends from the Company and the Bank. The Company is also subject to dividend restrictions under the terms of its 2029 Notes and junior subordinated debentures. See "Common Stock - Dividend Restrictions" in Note 14, Stockholders' Equity, for more information.

In July 2013, the federal banking regulatory agencies issued a final rule which revises the regulatory capital framework for financial institutions. The final rule (also known as the Basel III capital rules) covers a number of aspects pertaining to capital requirements.

**INVESTAR HOLDING CORPORATION**  
**Notes to Consolidated Financial Statements**

These include:

- Increased the Prompt Corrective Action Capital Category Thresholds to be deemed well-capitalized.
- Established a Capital Conservation Buffer - The Capital Conservation Buffer was phased in through 2019.
- Changes in risk-weighting of assets.
- Opt-out Election of Accumulated Other Comprehensive Income from Common Equity Tier 1 Capital.

Financial institutions became subject to the final rule on January 1, 2015, and the rules were fully phased in as of January 1, 2019.

**NOTE 20. 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 lending commitments is included in other liabilities in the balance sheet. At December 31, 2020 and 2019, the reserve for unfunded loan commitments was \$0.2 million and \$0.1 million, 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).

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Loan commitments	\$ 266,039	\$ 242,180
Standby letters of credit	14,420	11,475

Additionally, at December 31, 2020, the Company had unfunded commitments of \$1.0 million for its investment in Small Business Investment Company qualified funds, which is included in other assets on the consolidated balance sheet.

***Insurance***

The Company is obligated for certain costs associated with its insurance program for employee health. The Company is self-insured for a substantial portion of its potential claims. The Company recognizes its obligation associated with these costs, up to specified deductible limits in the period in which a claim is incurred, including with respect to both reported claims and claims incurred but not reported. The claims costs are estimated based on historical claims experience. The reserves for insurance claims are reviewed and updated by management on a quarterly basis.

***Employment Agreements***

On August 1, 2020, the Company entered into employment agreements with its Chief Executive Officer and Chief Financial Officer. These agreements provide that each executive shall receive a minimum annual base salary (\$510,000 for its Chief Executive Officer and \$285,000 for its Chief Financial Officer), shall be eligible for annual incentive compensation up to a certain percentage of the base salary, subject to the discretion and approval of the Company's board of directors, and shall be entitled to the payment of severance benefits upon termination under specified circumstances.

The initial term of each Employment Agreement expires on August 1, 2023 and will automatically renew for successive one-year periods unless written notice of non-renewal is given by either party to the other at least ninety (90) days prior to the expiration of the then-current term.

### ***Legal Proceedings***

The nature of the business of the Company's banking and other subsidiaries ordinarily results in a certain amount of claims, litigation, investigations, and legal and administrative cases and proceedings, which are considered incidental to the normal conduct of business. Some of these claims are against entities which the Company acquired in business acquisitions. The Company has asserted defenses to these claims and, with respect to such legal proceedings, intends to continue to defend itself, litigating or settling cases according to management's judgment as to what is in the best interest of the Company and its shareholders.

The Company assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that the Company will incur a loss and the amount of the loss can be reasonably estimated, the Company records a liability in its consolidated financial statements. These legal reserves may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of loss is not estimable, the Company does not accrue legal reserves. While the outcome of legal proceedings is inherently uncertain, based on information currently available and available insurance coverage, the Company's management believes that it has established appropriate legal reserves. If an accrual is not made, and there is at least a reasonable possibility that a loss or additional loss may have been incurred, the Company discloses the nature of the contingency and an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. Any incremental liabilities arising from pending legal proceedings are not expected to have a material adverse effect on the Company's consolidated financial position, consolidated results of operations, or consolidated cash flows. However, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Company's consolidated financial position, consolidated results of operations, or consolidated cash flows.

As of the date of this filing, the Company believes the amount of losses associated with legal proceedings that it is reasonably possible to incur is not material.

### **NOTE 21. TRANSACTIONS WITH RELATED PARTIES**

The Bank has made, and expects in the future to continue to make in the ordinary course of business, loans to directors and executive officers of the Company, the Bank, and their affiliates. In management's opinion, these loans were made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements, and do not represent more than normal credit risk. See Note 4, Loans and Allowance for Loan Losses, for more information regarding lending transactions between the Company and these related parties.

During 2020 and 2019, certain executive officers and directors of the Company and the Bank, including companies with which they are affiliated, were deposit customers of the Bank. See Note 9, Deposits, regarding total deposits outstanding to these related parties.

The Company has transactions with related parties for which the Company believes the terms and conditions are comparable to terms that would have been available from a third party that was unaffiliated with the Company. The following describes transactions since January 1, 2018, in addition to the ordinary banking relationships described above, in which the Company has participated in which one or more of its directors, executive officers or other related persons had or will have a direct or indirect material interest.

On May 29, 2020, the Bank purchased the first floor of its corporate headquarters, located at 10500 Coursey Blvd. in Baton Rouge, Louisiana, from Court Plaza Investments, LLC, a related party entity that is controlled by one of the Company's board members. Following the purchases of the second and third floors in previous years, the first floor was purchased for \$1.8 million and gives the Bank complete ownership of the building, branded as the Investar Tower. The purchase price approximated the appraised value as determined by an independent appraiser.

The Company has engaged in a number of transactions with Joffrion Commercial Division, LLC ("JCD"), a commercial construction company owned and managed by Gordon H. Joffrion, one of the Company's directors. For each transaction, the Company selected JCD through its public bidding process. The Company paid JCD approximately \$0.9 million, \$0.3 million and \$0.6 million during the years ended December 31, 2020, 2019 and 2018, respectively.

**INVESTAR HOLDING CORPORATION**  
**Notes to Consolidated Financial Statements**

**NOTE 22. PARENT ONLY BALANCE SHEETS, STATEMENTS OF OPERATIONS AND STATEMENTS OF CASH FLOWS**

**BALANCE SHEETS**

<i>(dollars in thousands)</i>	December 31,	
	2020	2019
<b>ASSETS</b>		
Cash and due from bank	\$ 19,678	\$ 35,535
Equity securities	1,178	1,615
Accounts receivable	—	3
Due from bank subsidiary	909	712
Investment in bank subsidiary	271,619	255,141
Investment in trust	202	202
Investment in tax credit entity	—	87
Trademark intangible	100	100
Other assets	63	37
<b>Total assets</b>	<b>\$ 293,749</b>	<b>\$ 293,432</b>
<b>LIABILITIES</b>		
Subordinated debt, net of unamortized issuance costs	\$ 42,897	\$ 42,826
Junior subordinated debt	5,949	5,897
Accounts payable	167	1,579
Accrued interest payable	606	465
Dividend payable	694	679
Deferred tax liability	152	10
<b>Total liabilities</b>	<b>50,465</b>	<b>51,456</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock	10,609	11,229
Surplus	159,485	168,658
Retained earnings	71,385	60,198
Accumulated other comprehensive income	1,805	1,891
<b>Total stockholders' equity</b>	<b>243,284</b>	<b>241,976</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 293,749</b>	<b>\$ 293,432</b>

**INVESTAR HOLDING CORPORATION**  
**Notes to Consolidated Financial Statements**

**STATEMENTS OF OPERATIONS**

<i>(dollars in thousands)</i>	<b>For the year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>REVENUE</b>		
Dividends received from bank subsidiary	\$ —	\$ 6,600
Dividends on corporate stock	78	30
Partnership income	19	—
Change in the fair value of equity securities	258	327
Interest income from investment in trust	5	9
<b>Total revenue</b>	<b>360</b>	<b>6,966</b>
<b>EXPENSE</b>		
Interest on borrowings	2,713	1,686
Management fees to bank subsidiary	360	360
Acquisition expense	72	31
Other expense	574	440
<b>Total expense</b>	<b>3,719</b>	<b>2,517</b>
(Loss) income before income taxes and equity in undistributed income of bank subsidiary	(3,359)	4,449
Equity in undistributed income of bank subsidiary	16,563	11,941
Income tax benefit	685	449
<b>Net income</b>	<b>\$ 13,889</b>	<b>\$ 16,839</b>

**INVESTAR HOLDING CORPORATION**  
**Notes to Consolidated Financial Statements**

**STATEMENTS OF CASH FLOWS**

<i>(dollars in thousands)</i>	<b>For the year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 13,889	\$ 16,839
Adjustments to reconcile net loss to net cash provided by operating activities:		
Equity in undistributed earnings of bank subsidiary	(16,563)	(11,941)
Change in the fair value of equity securities	(258)	(327)
Amortization of debt issuance costs and purchase accounting adjustments	123	105
Net change in:		
Due from bank subsidiary	(197)	(261)
Other assets	10	25
Deferred tax asset	142	62
Accrued other liabilities	(23)	2,776
Net cash (used in) provided by operating activities	(2,877)	7,278
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital contributed to bank subsidiary	—	(23,250)
Repayment of investment in and advances to subsidiary	—	8,000
Distributions from investments	77	82
Purchases of equity securities	(2,449)	(144)
Proceeds from the sale of equity securities	3,144	88
Net cash provided by (used in) investing activities	772	(15,224)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid on common stock	(2,686)	(2,167)
Proceeds from common stock offering, net of issuance costs	—	28,525
Payments to repurchase common stock	(11,112)	(8,326)
Proceeds from stock options	46	287
Proceeds from subordinated debt, net of costs	—	24,558
Net cash (used in) provided by financing activities	(13,752)	42,877
Net (decrease) increase in cash	(15,857)	34,931
Cash and cash equivalents, beginning of period	35,535	604
Cash and cash equivalents, end of period	\$ 19,678	\$ 35,535
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash payments for:		
Interest on borrowings	\$ 2,571	\$ 1,513

## NOTE 23. EARNINGS PER SHARE

The following is a summary of the information used in the computation of basic and diluted earnings per common share for the years ended December 31, 2020, 2019 and 2018 (in thousands, except share data).

	December 31,		
	2020	2019	2018
<b>Earnings per common share - basic</b>			
Net income	\$ 13,889	\$ 16,839	\$ 13,606
Less: income allocated to participating securities	(73)	(164)	(192)
Net income allocated to common shareholders	\$ 13,816	\$ 16,675	\$ 13,414
Weighted-average basic shares outstanding	10,850,936	9,931,497	9,538,891
Basic earnings per common share	\$ 1.27	\$ 1.68	\$ 1.41
<b>Earnings per common share - diluted</b>			
Net income allocated to common shareholders	\$ 13,816	\$ 16,676	\$ 13,417
Weighted-average basic shares outstanding	10,850,936	9,931,497	9,538,891
Dilutive effect of securities	14,911	99,521	125,952
Total weighted average diluted shares outstanding	10,865,847	10,031,018	9,664,843
Diluted earnings per common share	\$ 1.27	\$ 1.66	\$ 1.39

The weighted average number of 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.

	December 31,		
	2020	2019	2018
Stock options	71	—	6,306
Restricted stock awards	10,968	388	1,364
Restricted stock units	62,754	7,550	—

## NOTE 24. SUBSEQUENT EVENTS

On January 21, 2021, the Company and its wholly-owned subsidiary, the Bank, entered into an Agreement and Plan of Reorganization (the “Reorganization Agreement”) with Cheaha Financial Group, Inc. (“Cheaha”), the holding company for Cheaha Bank, Oxford, Alabama, and High Point Acquisition, Inc., a Louisiana corporation and wholly-owned subsidiary of the Company (“Merger Subsidiary”). The Reorganization Agreement provides for the merger of the Merger Subsidiary with and into Cheaha, with Cheaha as the surviving corporation. Immediately following the merger, Cheaha will be merged with and into the Company, with the Company as the surviving corporation, and then Cheaha Bank will be immediately merged with and into the Bank, with the Bank as the surviving bank.

Under the terms of the Reorganization Agreement, each of the issued and outstanding shares of Cheaha common stock will be converted into and represent the right to receive \$80.00 in cash from the Company. In the aggregate, Cheaha’s shareholders will receive approximately \$41.1 million in cash consideration as a result of the merger, which per share and aggregate consideration shall be reduced by any dividends paid to Cheaha shareholders prior to the closing of the acquisition. Prior to the closing of the merger, Cheaha will be required to have adjusted tangible shareholders equity, calculated on a consolidated basis in the manner described in the Reorganization Agreement, equal to at least \$27.6 million.

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



Management has evaluated all subsequent events and transactions that occurred after December 31, 2020 up through the date that the financial statements were available to be issued and determined that there were no additional events that require disclosure. No events or changes in circumstances were identified that would have an adverse impact on the financial statements.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**

None.

**Item 9A. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

As of the end of the period covered by this Annual Report on Form 10-K, the Company carried out an evaluation under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer (the Company's principal executive and financial officers), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective for ensuring that information the Company is required to disclose in 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 Securities and Exchange Commission's rules and forms.

***Changes in Internal Control over Financial Reporting***

There were no changes to internal control over financial reporting during the fourth quarter of 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

***Management's Report on Internal Control over Financial Reporting***

Management's annual report on internal control over financial reporting and the report thereon of Horne LLP are included herein under *Item 8. Financial Statements and Supplementary Data*.

**Item 9B. Other Information**

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

Except as provided below, the information required by Item 10 is incorporated by reference to the Company's Definitive Proxy Statement for its 2021 Annual Meeting of Shareholders (the "2021 Proxy Statement").

#### Code of Conduct and Ethics

The Company has adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers that applies to its chief executive officer, chief financial officer, chief accounting officer and any other senior financial officers, and the Company has also adopted a Code of Conduct that applies to all of the Company's directors, officers and employees. The full text of the Code of Ethics for the Chief Executive Officer and Senior Financial Officers and the Code of Conduct can be found by clicking on "Corporate Governance" under the "Investor Relations" tab on the Company's website, [www.investarbank.com](http://www.investarbank.com), and then by clicking on "Code of Ethics for the Chief Executive Officer and Senior Financial Officers" or "Code of Conduct," as applicable. The Company intends to satisfy the disclosure requirement under Item 5.05(c) of Form 8-K regarding an amendment to, or waiver from, a provision of the Company's Code of Ethics for the Chief Executive Officer and Senior Financial Officers by posting such information on its website, at the address specified above.

### Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference to the 2021 Proxy Statement.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

#### Stock Ownership

Except as provided below, the information required by Item 12 is incorporated by reference to the 2021 Proxy Statement.

#### Securities Authorized for Issuance under Equity Compensation Plans

The following table presents certain information regarding our equity compensation plans as of December 31, 2020.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders <sup>(1)</sup>	127,765	\$ 22.97	242,408
Equity compensation plans not approved by security holders <sup>(2)</sup>	280,523	15.23	—
Total	408,288	\$ 16.96	242,408

<sup>(1)</sup> Effective May 24, 2017, the Company's shareholders approved its 2017 Long-Term Incentive Compensation Plan (the "Plan") and ceased using the 2014 Long-Term Incentive Plan, discussed below. The Plan authorizes the grant of various types of equity grants and awards, such as restricted stock, stock options and stock appreciation rights to eligible participants, which include all of the Company's employees, non-employee directors, and consultants. The Plan has reserved 600,000 shares of common stock for issuance to eligible participants pursuant to awards under the Plan. No awards may be granted under the Plan after May 24, 2027.

<sup>(2)</sup> The Investar Holding Corporation 2014 Long-Term Incentive Compensation Plan (the "2014 Plan") was adopted by the Company's board of directors on January 15, 2014 and was amended on March 13, 2014. Because the Company was a private corporation at the time of the adoption of the 2014 Plan, shareholder approval of the 2014 Plan was not required, nor was such approval obtained. A total of 600,000 shares of common stock was reserved for issuance pursuant to awards under the 2014 Plan. Effective May 24, 2017, no future awards will be granted under the 2014 Plan, although the terms and conditions of the 2014 Plan will continue to govern any outstanding awards thereunder.

### Item 13. Certain Relationships and Related Transactions, and Directors Independence

The information required by Item 13 is incorporated by reference to the 2021 Proxy Statement.

### Item 14. Principal Accounting Fees and Services

The information required by Item 14 is incorporated by reference to the 2021 Proxy Statement.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) Documents Filed as Part of this Report.

- (1) The following financial statements are incorporated by reference from *Item 8. Financial Statements and Supplementary Data* hereof:
- Consolidated Balance Sheets as of December 31, 2020 and 2019
  - Consolidated Statements of Income for the Years Ended December 31, 2020, 2019 and 2018
  - Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020, 2019 and 2018
  - Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2020, 2019 and 2018
  - Consolidated Statements of Cash Flows for the Years Ended December 31, 2020, 2019 and 2018
  - Notes to Consolidated Financial Statements
- (2) All schedules for which provision is made in the applicable accounting regulations of the SEC are omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements and related notes thereto.
- (3) The following exhibits are filed as part of this Form 10-K, and this list includes the Exhibit Index.

Exhibit Number	Description	Location
2.1	Agreement and Plan of Reorganization dated October 10, 2018, by and among Investar Holding Corporation, Investar Bank and Mainland Bank	Exhibit 2.1 to the Current Report on Form 8-K of the Company filed October 10, 2018 and incorporated herein by reference
2.2	Agreement and Plan of Reorganization dated July 30, 2019 by and among Investar Holding Corporation, Investar Bank, and Bank of York	Exhibit 2.1 to the Current Report on Form 8-K of the Company filed July 31, 2019 and incorporated herein by reference
2.3	Agreement and Plan of Reorganization dated January 21, 2021 by and among Investar Holding Corporation, Cheaha Financial Group, Inc. and High Point Acquisition, Inc.	Exhibit 2.1 to the Current Report on Form 8-K of the Company filed January 25, 2021 and incorporated herein by reference
3.1	Restated Articles of Incorporation of Investar Holding Corporation	Exhibit 3.1 to the Registration Statement on Form S-1 of the Company filed May 16, 2014 and incorporated herein by reference
3.2	Amended and Restated By-laws of Investar Holding Corporation	Exhibit 3.2 to the Registration Statement on Form S-4 of the Company filed October 10, 2017 and incorporated herein by reference
4.1	Specimen Common Stock Certificate	Exhibit 4.1 to the Registration Statement on Form S-1 of the Company filed May 16, 2014 and incorporated herein by reference
4.2	Description of Registrant's Securities Registered under Section 12 of the Securities Exchange Act of 1934	Exhibit 4.2 to the Annual Report on Form 10-K filed March 13, 2020 and incorporated herein by reference.
4.3	Form of 5.125% Fixed to Floating Rate Subordinated Note due 2029	Exhibit 4.1 to the Current Report on Form 8-K filed November 14, 2019 and incorporated herein by reference.
4.4	Form of Registration Rights Agreement, dated December 20, 2019, by and between Investar Holding Corporation and the purchasers set forth therein.	Exhibit 4.1 to the Current Report on Form 8-K filed December 24, 2019 and incorporated herein by reference.
4.5	Indenture, dated March 24, 2017, by and between Investar Holding Corporation and Wilmington Trust, National Association, as Trustee	Exhibit 4.1 to the Current Report on Form 8-K filed March 24, 2017 and incorporated herein by reference
4.6	Supplemental Indenture, dated March 24, 2017, by and between Investar Holding Corporation and Wilmington Trust, National Association, as Trustee	Exhibit 4.2 to the Current Report on Form 8-K filed with the SEC on March 24, 2017 and incorporated herein by reference
10.1	Form of Stock Purchase Agreement, dated December 20, 2019, by and between Investar Holding Corporation and the purchasers set forth therein	Exhibit 10.1 to the Current Report on Form 8-K filed December 24, 2019 and incorporated herein by reference

10.2	Form of Subordinated Note Purchase Agreement, dated November 12, 2019, by and between Investar Holding Corporation and the purchasers set forth therein	Exhibit 10.1 to the Current Report on Form 8-K filed November 14, 2019 and incorporated herein by reference
10.3	Form of the Director Support Agreement, dated October 10, 2018, among Investar Holding Corporation, Mainland Bank and all of the directors of Mainland Bank parties thereto	Exhibit 10.3 to the Registration Statement on Form S-4 of the Company filed November 30, 2018 and incorporated herein by reference
10.4*	Employment Agreement, dated August 1, 2020 by and among Investar Holding Corporation, Investar Bank, National Association, and John J. D'Angelo	Exhibit 10.1 to the Current Report on Form 8-K filed August 6, 2020 and incorporated herein by reference.
10.5*	Employment Agreement, dated August 1, 2020 by and among Investar Holding Corporation, Investar Bank, National Association, and Christopher L. Hufft	Exhibit 10.2 to the Current Report on Form 8-K filed August 6, 2020 and incorporated herein by reference.
10.6*	Investar Holding Corporation 2017 Long-Term Incentive Compensation Plan	Exhibit 10.1 to the Current Report on Form 8-K filed May 25, 2017 and incorporated herein by reference
10.7*	Salary Continuation Agreement, dated as of February 28, 2018, by and between Investar Bank and John D'Angelo	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed March 1, 2018 and incorporated herein by reference
10.8*	Supplemental Salary Continuation Agreement, dated May 22, 2019, by and between Investar Bank and John D'Angelo	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed May 23, 2019 and incorporated herein by reference
10.9*	Salary Continuation Agreement, dated as of February 28, 2018, by and between Investar Bank and Chris Hufft	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed March 1, 2018 and incorporated herein by reference
10.10*	Supplemental Salary Continuation Agreement, dated May 22, 2019, by and between Investar Bank and Christopher Hufft	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed May 23, 2019 and incorporated herein by reference
10.11*	Salary Continuation Agreement, dated as of February 28, 2018, by and between Investar Bank and Dane Babin	Exhibit 10.3 to the Current Report on Form 8-K of the Company filed March 1, 2018 and incorporated herein by reference
10.12*	Form of Split Dollar Agreement by and between Investar Bank and each executive entering into a Salary Continuation Agreement	Exhibit 10.4 to the Current Report on Form 8-K of the Company filed March 1, 2018 and incorporated herein by reference
10.13*	Form of First Amendment to Split Dollar Agreement by and between Investar Bank and each executive entering into a Supplemental Salary Continuation Agreement	Exhibit 10.3 to the Current Report on Form 8-K filed May 23, 2019 and incorporated herein by reference
10.14*	Investar Holding Corporation 2014 Long-Term Incentive Compensation Plan, as amended by Amendment No. 1 to Investar Holding Corporation 2014 Long Term Incentive Plan	Exhibit 10.1 to the Registration Statement on Form S-1 of the Company filed May 16, 2014 and, as to Amendment No.1, Exhibit 99.2 to the Registration Statement on Form S-8 of the Company filed October 31, 2014, each of which is incorporated herein by reference
10.15*	Form of Stock Option Grant Agreement	Exhibit 10.2 to the Registration Statement on Form S-1 of the Company filed May 16, 2014 and incorporated herein by reference
10.16*	Form of Restricted Stock Award Agreement for Employees	Exhibit 10.3 to the Annual Report on Form 10-K of the Company filed March 11, 2016 and incorporated herein by reference
10.17*	Form of Restricted Stock Award Agreement for Non-Employee Directors	Exhibit 10.4 to the Annual Report on Form 10-K of the Company filed March 11, 2016 and incorporated herein by reference
10.18*	Form of Restricted Stock Unit Agreement for Employees	Exhibit 10.15 to the Annual Report on Form 10-K of the Company filed March 15, 2019 and incorporated herein by reference
10.19*	Form of Restricted Stock Unit Agreement for Non-Employee Directors	Exhibit 10.16 to the Annual Report on Form 10-K of the Company filed March 15, 2019 and incorporated herein by reference
10.20*	Investar Holding Corporation 401(k) Plan, as restated effective January 1, 2021	Filed herewith

21	Subsidiaries of the Registrant	Exhibit 21 to the Registration Statement on Form S-1 of the Company filed May 16, 2014 and incorporated herein by reference
23.1	Consent of Ernst & Young LLP	Filed herewith
23.2	Consent of Horne LLP	Filed herewith
31.1	Rule 13a-14(a) Certification of Principal Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Rule 13a-14(a) Certification of Principal Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Section 1350 Certification of Principal Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Section 1350 Certification of Principal Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
104	Cover Page Interactive Data File (formatted in inline XBRL and contained in Exhibit 101)	Filed herewith

\* Management contract or compensatory plan or arrangement.

**Item 16. Form 10-K Summary**

Not applicable.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 10, 2021 by: /s/John J. D'Angelo  
John J. D'Angelo  
President and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Date: March 10, 2021 by: /s/John J. D'Angelo  
John J. D'Angelo  
President, Chief Executive  
Officer and Director  
(Principal Executive Officer)

Date: March 10, 2021 by: /s/Christopher L. Hufft  
Christopher L. Hufft  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Date: March 10, 2021 by: /s/Rachel P. Cherco  
Rachel P. Cherco  
Executive Vice President and  
Chief Accounting Officer  
(Principal Accounting Officer)

Date: March 10, 2021 by: /s/James M. Baker  
James M Baker  
Director

Date: March 10, 2021 by: /s/Thomas C. Besselman, Sr.  
Thomas C. Besselman, Sr.  
Director

Date: March 10, 2021 by: /s/James H. Boyce, III  
James H. Boyce, III  
Director

Date: March 10, 2021 by: /s/Robert M. Boyce, Sr.  
Robert M. Boyce, Sr.  
Director

Date: March 10, 2021 by: /s/William H. Hidalgo, Sr.  
William H. Hidalgo, Sr.  
Chairman of the Board

Date: March 10, 2021 by: /s/Gordon H. Joffrion, III  
Gordon H. Joffrion, III  
Director

Date: March 10, 2021 by: /s/Robert C. Jordan  
Robert C. Jordan  
Director

Date: March 10, 2021 by: /s/David J. Lukinovich  
David J. Lukinovich  
Director

Date: March 10, 2021 by: /s/Suzanne O. Middleton  
Suzanne O. Middleton  
Director

Date: March 10, 2021 by: /s/Andrew C. Nelson, M.D.  
Andrew C. Nelson, M.D.  
Director

Date: March 10, 2021 by: /s/Frank L. Walker  
Frank L. Walker  
Director



**INVESTAR HOLDING CORPORATION  
401(k) PLAN**

Restated January 1, 2021

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# INTRODUCTION

The Primary Employer previously established the Investar Holding Company 401(k) Plan (the "Plan") on January 1, 2010.

The Plan is restated effective January 1, 2020. This restated document is substituted in lieu of the prior document with the exception of any amendments that have not been incorporated into this restatement. Such amendment(s) shall continue to apply to this restated Plan until such provisions are integrated into the Plan or such amendment(s) are superseded by another amendment.

It is intended that the Plan, as restated, qualify as a profit sharing plan under the Internal Revenue Code of 1986, as amended. The Employer agrees to operate the Plan according to the terms, provisions, and conditions set forth in this document.

The restated Plan continues to be for the exclusive benefit of employees of the Employer. All persons covered under the Plan before the effective date of this restatement shall continue to be covered under the restated Plan, if they are still Eligible Employees as of the restatement date, with no loss of benefits.

This restated Plan incorporates prior amendments and, where not previously reflected in the amendments, incorporates any applicable legal and regulatory changes since the Plan was last restated, including requirements under Internal Revenue Service ("IRS") Notices 2015-84 ("2015 Cumulative List"), 2016-80 (2016 Required Amendment List), 2017-72 (2017 Required Amendment List), 2018-91 (2018 Required Amendment List) and 2019-64 (2019 Required Amendment List), and is intended to comply in operation therewith. The Plan is also intended to be in good faith compliance, to the extent applicable, with the Tax Cut and Jobs Act ("TCJA") of 2017 and the Setting Every Community Up for Retirement Enhancement ("SECURE") Act of 2019. The provisions of this Plan apply as of the effective date of the restatement unless otherwise specified.

It is intended that the Plan shall consist of two components. One component of the Plan is intended to qualify as a profit sharing plan under Code Section 401(a) that includes a safe harbor qualified cash or deferred arrangement under Code Section 401(k) under the Internal Revenue Code of 1986. This component includes contributions that are invested in funds other than company stock. This component of the Plan provides for participant-directed investments and is intended to comply with ERISA Section 404(c). This component is to be considered the non-ESOP component of the Plan. The other component is intended to qualify as a qualified stock bonus plan under Code Section 401(a), and as an employee stock ownership plan (ESOP) under Code Section 4975(e)(7) under the Internal Revenue Code of 1986, including any later amendments to the Code. This component includes contributions invested in company stock and shall be considered the ESOP component of the Plan. The ESOP component of the Plan is intended to primarily invest in common stock of the Employer. The Employer is a C corporation whose stock is publicly traded on the NASDAQ stock exchange under the ticker symbol "ISTR." The underlying Trust for both components of the Plan is intended to be exempt from taxation under Code Section 501.

## ARTICLE I

### FORMAT AND DEFINITIONS

#### Section 1.01--FORMAT.

Words and phrases defined in the DEFINITIONS SECTION of Article I shall have that defined meaning when used in this Plan, unless the context clearly indicates otherwise. These words and phrases have initial capital letters to aid in identifying them as defined terms.

#### Section 1.02--DEFINITIONS.

Account means the Participant's share of the Plan Fund. Separate accounting records are kept for those parts of his Account resulting from:

- (a) Pre-tax Elective Deferral Contributions
- (b) Roth Elective Deferral Contributions
- (c) Qualified Matching Contributions
- (d) Qualified Nonelective Contributions
- (e) All Other Employer Contributions
- (f) Rollover Contributions
- (g) ESOP Discretionary Contributions
- (h) In-plan Roth Rollovers
- (i) Cash dividends paid on shares of Qualifying Employer Securities credited to the account maintained to reflect Contributions (with a separate dividend source account for each such type of contribution) that are initially reinvested in Qualifying Employer Securities at the election of the Participant.

If the Participant's Vesting Percentage is less than 100% as to any of the Employer Contributions, a separate accounting record will be kept for any part of his Account resulting from such Employer Contributions and, if there has been a prior Forfeiture Date, from such Contributions made before a prior Forfeiture Date.

A Participant's Account shall be reduced by any distribution of his Vested Account and by any Forfeitures. A Participant's Account shall participate in the earnings credited, expenses charged, and any appreciation or depreciation of the Investment Fund. A Participant's Account is subject to any minimum guarantees applicable under an Annuity Contract or other investment arrangement and to any expenses associated therewith.

**Accrual Computation Period** means the consecutive 12-month period ending on the last day of each Plan Year, including corresponding consecutive 12-month periods before the effective date of this Plan.

**ACP Test** means the nondiscrimination test described in Code Section 401(m)(2) as provided for in Section 3.08(d).

**ACP Test Safe Harbor** means the method described in Section 3.09 for satisfying the ACP Test with respect to Matching Contributions.

**Active Participant** means an Eligible Employee who is actively participating in the Plan according to the provisions of Section 2.01.

**ADP Test** means the nondiscrimination test described in Code Section 401(k)(3) as provided for in Section 3.08(c).

**ADP Test Safe Harbor** means the method described in Section 3.09 for satisfying the ADP Test.

**Affiliated Service Group** means any group of corporations, partnerships or other organizations of which the Employer is a part and that is affiliated within the meaning of Code Section 414(m) and the regulations thereunder. The term Controlled Group, as it is used in this Plan, shall include the term Affiliated Service Group.

**Alternate Payee** means any spouse, former spouse, child, or other dependent of a Participant who is recognized by a qualified domestic relations order as having a right to receive all, or a portion of, the benefits payable under the Plan with respect to such Participant.

**Annual Compensation** means, for a Plan Year, the Employee's Compensation for the Compensation Year ending with or within the consecutive 12-month period ending on the last day of the Plan Year.

**Annuity Contract** means the annuity contract or contracts into which the Trustee or the Primary Employer enters with the Insurer for guaranteed benefits, for the investment of Contributions in separate accounts, and for the payment of benefits under this Plan.

**Annuity Starting Date** means the first day of the first period for which an amount is payable to the Participant as an annuity or any other form.

**Beneficiary** means the person or persons named by a Participant to receive any benefits under the Plan when the Participant dies in accordance with Section 10.07.

**Catch-up Contributions** means Elective Deferral Contributions made to the Plan that are in excess of an otherwise applicable Plan limit and that are made by Participants who are age 50 or older by the end of their taxable year. An otherwise applicable Plan limit is a limit in the Plan that applies to Elective Deferral Contributions without regard to Catch-up Contributions, such as the limits on the Maximum Annual Additions, as defined in Section 3.07, the dollar limitation on Elective Deferral Contributions under Code Section 402(g) (not counting Catch-up Contributions), and the limit imposed by the ADP Test.

Catch-up Contributions are not subject to the limits on the Maximum Annual Additions, as defined in the Section 3.07, are not counted in the ADP Test, and are not counted in determining the minimum allocation under Code Section 416 (but Catch-up Contributions made in prior years are counted in determining whether the Plan is top-heavy).

**Claimant** means any person who makes a claim for benefits under this Plan in accordance with Section 9.05.

**Code** means the Internal Revenue Code of 1986, as amended.

**Compensation** means, except for purposes of Section 3.07 and Article XI, the total earnings, except as modified in this definition, from the Employer during any specified period.

"Earnings" in this definition means wages, salaries, Differential Wage Payments, and fees for professional services and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer maintaining the Plan to the extent that the amounts are includible in gross income (including, but not limited to, commissions paid to salespersons, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, and reimbursements or other expense allowances under a nonaccountable plan (as described in section 1.62-2(c) of the regulations)), and excluding the following:

- (a) employer contributions (other than elective contributions described in Code Section 402(e)(3), 408(k)(6), 408(p)(2)(A)(i), or 457(b)) to a plan of deferred compensation (including a simplified employee pension described in Code Section 408(k) or a simple retirement account described in Code Section 408(p), and whether or not qualified) to the extent such contributions are not includible in the Employee's gross income for the taxable year in which contributed, and any distributions (whether or not includible in gross income when distributed) from a plan of deferred compensation (whether or not qualified);
- (b) amounts realized from the exercise of a nonstatutory stock option (that is, an option other than a statutory stock option as defined in section 1.421-1(b) of the regulations), or when restricted stock (or property) held by the Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;
- (c) amounts realized from the sale, exchange or other disposition of stock acquired under a statutory stock option;
- (d) other amounts that receive special tax benefits, such as premiums for group-term life insurance (but only to the extent that the premiums are not includible in the gross income of the Employee and are not salary reduction amounts that are described in Code Section 125); and
- (e) other items of remuneration that are similar to any of the items listed in (a) through (d) above.

For any Self-employed Individual, Compensation means Earned Income.

Except as provided herein, Compensation for a specified period is the Compensation actually paid or made available (or if earlier, includible in gross income) during such period.

Compensation for a Plan Year shall also include Compensation paid by the later of 2 1/2 months after an Employee's Severance from Employment with the Employer maintaining the Plan or the end of the Plan Year that includes the date of the Employee's Severance from Employment with the Employer maintaining the Plan, if the payment is regular Compensation for services during the Employee's regular working hours, or Compensation for services outside the Employee's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, and, absent a Severance from Employment, the payments would have been paid to the Employee while the Employee continued in employment with the Employer.

Any payments not described above shall not be considered Compensation if paid after Severance from Employment, even if they are paid by the later of 2 1/2 months after the date of Severance

from Employment or the end of the Plan Year that includes the date of Severance from Employment.

Back pay, within the meaning of section 1.415(c)-2(g)(8) of the regulations, shall be treated as Compensation for the Plan Year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included in this definition.

Compensation paid or made available during a specified period shall include amounts that would otherwise be included in Compensation, but for an election under Code Section 125(a), 132(f)(4), 402(e)(3), 402(h)(1)(B), 402(k), or 457(b).

Compensation shall exclude reimbursements or other expense allowances, fringe benefits (cash and noncash), moving expenses, deferred compensation (other than elective contributions), and welfare benefits.

For purposes of Section 3.08, the Employer may elect to use an alternative nondiscriminatory definition of Compensation in accordance with the regulations under Code Section 414(s).

The Annual Compensation of each Participant taken into account in determining contributions and allocations for any determination period (the period over which Compensation is determined) shall not exceed the annual amount specified in Section 401(a)(17) of the Code (\$285,000 for 2020), as adjusted for cost-of-living increases in accordance with Code Section 401(a)(17)(B). The cost-of-living adjustment in effect for a calendar year applies to any determination period beginning with or within such calendar year.

If a determination period consists of fewer than 12 months, the annual compensation limit is an amount equal to the otherwise applicable annual compensation limit multiplied by a fraction. The numerator of the fraction is the number of months in the short determination period, and the denominator of the fraction is 12.

If Compensation for any prior determination period is taken into account in determining a Participant's contributions or allocations for the current Plan Year, the Compensation for such prior determination period is subject to the applicable annual compensation limit in effect for that determination period.

Compensation means, for a Leased Employee, Compensation for the services the Leased Employee performs for the Employer, determined in the same manner as the Compensation of Employees who are not Leased Employees, regardless of whether such Compensation is received directly from the Employer or from the leasing organization.

**Compensation Year** means the period used to determine Compensation. The Compensation Year is the consecutive 12-month period ending on the last day of each Plan Year, including corresponding periods before the effective date of the Plan.

**Contributions** means Employer Contributions and Rollover Contributions as set out in Article III, unless the context clearly indicates only specific contributions are meant.

**Controlled Group** means any group of corporations, trades, or businesses of which the Employer is a part that is under common control. A Controlled Group includes any group of corporations, trades, or businesses, whether or not incorporated, which is either a parent-subsiary group, a brother-sister group, or a combined group within the meaning of Code Section 414(b), Code Section 414(c) and the regulations thereunder and, for purposes of determining contribution limitations under Section 3.07, as modified by Code Section 415(h). The term Controlled Group, as it is used in this Plan, shall include the term Affiliated Service Group and any



other employer required to be aggregated with the Employer under Code Section 414(o) and the regulations thereunder.

**Designated Beneficiary** means the individual who is designated by the Participant (or the Participant's surviving spouse) as the Beneficiary of the Participant's interest under the Plan and who is the designated beneficiary under Code Section 401 (a)(9) and section 1.401(a)(9)-4 of the regulations.

**Designated Roth Account** means the portion of a Participant's Account resulting from Roth Elective Deferral Contributions, In-plan Roth Rollovers, and the portion of a Rollover Contribution from a designated Roth account under another plan and the respective earnings thereon. The Designated Roth Account shall be record kept in a manner that satisfies the separate accounting requirements of section 1.401(k)-1(f) of the regulations.

**Differential Wage Payments** means any payments that are made by an Employer to an individual with respect to any period during which the individual is performing Qualified Military Service while on active duty for a period of more than 30 days. Such payments shall be made in accordance with Code Section 3401(h) and represent all or a portion of the wages the individual would have received from the Employer if the individual were performing service for the Employer.

**Direct Rollover** means a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

**Discretionary Contributions** means discretionary Employer Contributions made pursuant to Section 3.01(d).

**Distributee** means an Employee or former Employee. In addition, the Employee's (or former Employee's) surviving spouse and the Employee's (or former Employee's) spouse or former spouse who is the Alternate Payee under a qualified domestic relations order, as defined in Code Section 414(p), are Distributees with regard to the interest of the spouse or former spouse. A Distributee includes the Employee's (or former Employee's) nonspouse Designated Beneficiary, in which case, the distribution can only be transferred to a traditional IRA or Roth IRA established on behalf of the nonspouse Designated Beneficiary and that will be treated as an inherited IRA pursuant to the provisions of Code Section 402(c)(1 1).

**Earned Income** means, for a Self-employed Individual, net earnings from self-employment in the trade or business for which this Plan is established if such Self-employed Individual's personal services are a material income producing factor for that trade or business. Net earnings shall be determined without regard to items not included in gross income and the deductions properly allocable to or chargeable against such items. Net earnings shall be reduced for the employer contributions to the employer's qualified retirement plan(s) to the extent deductible under Code Section 404.

Net earnings shall be determined with regard to the deduction allowed to the employer by Code Section 164(f).

**Elective Deferral Agreement** means an agreement between an Eligible Employee and the Employer under which an Eligible Employee may make Elective Deferral Contributions. An Elective Deferral Agreement (or change thereto) must be made in such manner and in accordance with such rules as the Employer may prescribe in a nondiscriminatory manner (including by means of voice response or other electronic system under circumstances the Employer permits). Elective Deferral Agreements cannot relate to Compensation that is payable prior to the later of the adoption or effective date of the cash or deferred arrangement (CODA).

Elective Deferral Agreements shall be made, changed, or terminated according to the provisions of Section 3.01. An Elective Deferral Agreement may also be terminated according to the terms of an automatic contribution arrangement.

**Elective Deferral Contributions** means Employer Contributions made in accordance with an Elective Deferral Agreement or the terms of an automatic contribution arrangement.

Elective Deferral Contributions means Pre-tax Elective Deferral Contributions and Roth Elective Deferral Contributions, unless the context clearly indicates only one is meant.

Elective Deferral Contributions shall be 100% vested and subject to the distribution restrictions of Code Section 401(k) when made. See Section 5.04.

**Eligibility Service** means an Employee's Period of Service. Eligibility Service shall be measured from his Employment Commencement Date to his most recent Severance Date. This Period of Service shall be reduced by any Period of Severance that occurred prior to his most recent Severance Date, unless such Period of Severance is included under the service spanning rule below. This period of Eligibility Service shall be expressed as months (on the basis that 30 days equal one month).

However, Eligibility Service is modified as follows:

Period of Military Duty included:

A Period of Military Duty shall be included as service with the Employer to the extent it has not already been credited.

Period of Severance included (service spanning rule):

A Period of Severance shall be deemed to be a Period of Service under either of the following conditions:

- (a) the Period of Severance immediately follows a period during which an Employee is not absent from work and ends within 12 months; or
- (b) the Period of Severance immediately follows a period during which an Employee is absent from work for any reason other than quitting, being discharged, or retiring (such as a leave of absence or layoff) and ends within 12 months of the date he was first absent.

Controlled Group service included:

An Employee's service with a member firm of a Controlled Group while both that firm and the Employer were members of the Controlled Group shall be included as service with the Employer.

**Eligible Employee** means any Employee of the Employer excluding the following:

- (a) Bargaining class. Represented for collective bargaining purposes by any collective bargaining agreement between the Employer and employee representatives, if retirement benefits were the subject of good faith bargaining and if two percent or less of the Employees who are covered pursuant to that agreement are professionals as defined in section 1.410(b)-9 of the regulations. For this purpose, the term "employee

representatives” does not include any organization more than half of whose members are Employees who are owners, officers, or executives of the Employer.

- (b) Nonresident alien, within the meaning of Code Section 7701(b)(1)(B), who receives no earned income, within the meaning of Code Section 911 (d)(2), from the Employer that constitutes income from sources within the United States, within the meaning of Code Section 861(a)(3), or who receives such earned income but it is all exempt from income tax in the United States under the terms of an income tax convention.
- (c) Leased Employee.

However, to the extent an Employee becomes an Employee as a result of a Code Section 410(b)(6)(C) transaction, that Employee shall not be an Eligible Employee during the period beginning on the date of the transaction and ending on the last day of the first Plan Year beginning after the date of the transaction. This period is called the transition period. The transition period may end earlier if there is a significant change in the coverage under the Plan or if the Employer chooses to cover all similarly situated Employees as of an earlier date. A Code Section 410(b)(6)(C) transaction is an asset or stock acquisition, merger, or similar transaction involving a change in the employer of the employees of a trade or business.

**Eligible Retirement Plan** means an eligible plan under Code Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan, a traditional IRA, a Roth IRA, an annuity plan described in Code Section 403(a), an annuity contract described in Code Section 403(b), or a qualified plan described in Code Section 401(a), that accepts the Distributee's Eligible Rollover Distribution. The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the Alternate Payee under a qualified domestic relations order, as defined in Code Section 414(p). Effective January 1, 2021, an eligible retirement plan also includes a SIMPLE IRA, provided the rollover is made after the two-year period beginning on the date the Distributee first participated in the SIMPLE IRA plan.

If any portion of an Eligible Rollover Distribution is attributable to payments or distributions from a Designated Roth Account, an Eligible Retirement Plan with respect to such portion shall include only (i) another designated Roth account of the individual from whose Account the payments or distributions were made or (ii) a Roth IRA of such individual.

**Eligible Rollover Distribution** means any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: (i) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's Designated Beneficiary, or for a specified period of 10 years or more; (ii) any distribution to the extent such distribution is required under Code Section 401(a)(9); (iii) any hardship distribution; and (iv) any other distribution(s) that is reasonably expected to total less than \$200 during a year. For purposes of the \$200 rule, a distribution from a Designated Roth Account and a distribution from other accounts under the Plan shall be treated as made under separate plans.

Any portion of a distribution that consists of after-tax employee contributions that are not includible in gross income may be transferred only to (i) a traditional individual retirement account or annuity described in Code Section 408(a) or (b) (a “traditional IRA”); (ii) a Roth individual retirement account or annuity described in Code Section 408A (a “Roth IRA”); or (iii) a qualified plan or an annuity contract described in Code Section 401(a) and 403(b), respectively, that agrees to separately account for amounts so transferred (and earnings thereon), including

separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.

**Employee** means an individual who is employed by the Employer or any other employer required to be aggregated with the Employer under Code Sections 414(b), (c), (m), or (o). A Controlled Group member is required to be aggregated with the Employer.

The term Employee shall include any individual receiving Differential Wage Payments.

The term Employee shall include any Self-employed Individual treated as an employee of any employer described in the preceding paragraphs as provided in Code Section 401(c)(1).

The term Employee shall also include any Leased Employee deemed to be an employee of any employer described in the preceding paragraphs as provided in Code Section 414(n) or (o).

An independent contractor is not an Employee. If the Internal Revenue Service determines that an individual who the Employer considered to be an independent contractor, or the employee of an independent contractor, is an Employee, such individual shall be an Employee as of the reclassification date.

**Employer** means, except for purposes of Section 3.07, the Primary Employer. This will also include any successor corporation, trade or business which will, by written agreement, assume the obligations of this Plan or any Predecessor Employer that maintained this Plan. The Employer is a C corporation.

Employer Contributions means

Elective Deferral Contributions  
Matching Contributions  
Qualified Nonelective Contributions  
Discretionary Contributions  
ESOP Discretionary Contributions

as set out in Article III and contributions made by the Employer in accordance with the provisions of Section 11.03, unless the context clearly indicates only specific contributions are meant.

**Employment Commencement Date** means the date an Employee first performs an Hour of Service.

**Entry Date** means the date an Employee first enters the Plan as an Active Participant in accordance with Section 2.01.

**ERISA** means the Employee Retirement Income Security Act of 1974, as amended.

**ESOP Discretionary Contributions** means Contributions contributed by the Employer or an Adopting Employer in the form of Qualifying Employer Securities or in cash designated by the Employer to be invested in Qualifying Employer Securities or designated to repay any outstanding Exempt Loan in accordance with Section 3.01(e).

**Exempt Loan** means a loan or other extension of credit to the Plan, made in accordance with Section 4.02, to enable the Plan to acquire shares of Qualifying Employer Securities, or to refinance a prior Exempt Loan.

**Forfeiture** means the part, if any, of a Participant's Account that is forfeited in accordance with Section 3.04.

**Forfeiture Date** means the date on which a Forfeiture occurs and is the date the Participant incurs five consecutive Vesting Breaks in Service.

**Highly Compensated Employee** means any Employee who:

- (a) was a 5-percent owner at any time during the year or the preceding year, or
- (b) for the preceding year had compensation from the Employer in excess of \$130,000. This amount is adjusted at the same time and in the same manner as under Code Section 415(d).

For this purpose the applicable year of the plan for which a determination is being made is called a determination year and the preceding 12-month period is called a look-back year.

The determination of who is a highly compensated former Employee is based on the rules applicable to determining Highly Compensated Employee status as in effect for that determination year, in accordance with section 1.414(q)-1T, A-4 of the temporary Income Tax Regulations and Internal Revenue Service Notice 97-45.

The determination of who is a Highly Compensated Employee, including the compensation that is considered and the identity of the 5-percent owners, shall be made in accordance with Code Section 414(q) and the regulations thereunder.

For purposes of this definition, the above references to compensation shall mean Compensation as defined in in Section 3.07.

**Hour of Service** means, for the elapsed time method of crediting service in this Plan, each hour for which an Employee is paid, or entitled to payment, for performing duties for the Employer. Hour of Service means, for the hours method of crediting service in this Plan, the following:

- (a) Each hour for which an Employee is paid, or entitled to payment, for performing duties for the Employer during the applicable computation period.
- (b) Each hour for which an Employee is paid, or entitled to payment, by the Employer on account of a period of time in which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty or leave of absence. Notwithstanding the preceding provisions of this subparagraph (b), no credit will be given to the Employee:
  - (1) for more than 501 Hours of Service under this subparagraph (b) on account of any single continuous period in which the Employee performs no duties (whether or not such period occurs in a single computation period); or
  - (2) for an Hour of Service for which the Employee is directly or indirectly paid, or entitled to payment, on account of a period in which no duties are performed if such payment is made or due under a plan maintained solely for the purpose of complying with applicable worker's or workmen's compensation, or unemployment compensation, or disability insurance laws; or

- (3) for an Hour of Service for a payment which solely reimburses the Employee for medical or medically related expenses incurred by him.

For purposes of this subparagraph (b), a payment shall be deemed to be made by, or due from the Employer, regardless of whether such payment is made by, or due from the Employer, directly or indirectly through, among others, a trust fund or insurer, to which the Employer contributes or pays premiums and regardless of whether contributions made or due to the trust fund, insurer or other entity are for the benefit of particular employees or are on behalf of a group of employees in the aggregate.

- (c) Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer. The same Hours of Service shall not be credited both under subparagraph (a) or subparagraph (b) above (as the case may be) and under this subparagraph (c). Crediting of Hours of Service for back pay awarded or agreed to with respect to periods described in subparagraph (b) above will be subject to the limitations set forth in that subparagraph.

The crediting of Hours of Service above shall be applied under the rules of paragraphs (b) and (c) of the Department of Labor Regulation 2530.200b-2 (including any interpretations or opinions implementing such rules); which rules, by this reference, are specifically incorporated in full within this Plan. The reference to paragraph (b) applies to the special rule for determining Hours of Service for reasons other than the performance of duties such as payments calculated (or not calculated) on the basis of units of time and the rule against double credit. The reference to paragraph (c) applies to the crediting of Hours of Service to computation periods.

Hours of Service shall be credited for employment with any other employer required to be aggregated with the Employer under Code Sections 414(b), (c), (m), or (o) and the regulations thereunder for purposes of eligibility and vesting. Hours of Service shall also be credited for any individual who is considered an employee for purposes of this Plan pursuant to Code Section 414(n) or (o) and the regulations thereunder.

Solely for purposes of determining whether a one-year break in service has occurred for vesting purposes, during a Parental Absence an Employee shall be credited with the Hours of Service which would otherwise have been credited to the Employee but for such absence, or in any case in which such hours cannot be determined, eight Hours of Service per day of such absence. The Hours of Service credited under this paragraph shall be credited in the computation period in which the absence begins if the crediting is necessary to prevent a break in service in that period; or in all other cases, in the following computation period.

**Inactive Participant** means a former Active Participant who has an Account. See Section 2.02.

**In-plan Roth Rollover** means the irrevocable rollover of all or any portion of a Participant's Vested Account (other than a Designated Roth Account) to a Designated Roth Account under the Plan. The rollover shall be subject to the provisions of Section 3.03, and made in accordance with Code Section 402A(c)(4) and any subsequent guidance.

**Insurer** means Principal Life Insurance Company or the insurance company or companies named by (i) the Primary Employer or (ii) the Trustee in its discretion or as directed under the Trust Agreement.

**Investment Fund** means the total of Plan assets, excluding the guaranteed benefit policy portion of any Annuity Contract and any Unallocated Reserve. All or a portion of these assets may be held under, or invested pursuant to, the terms of a Trust Agreement.

The Investment Fund shall be valued at current fair market value as of the Valuation Date. The valuation shall take into consideration investment earnings credited, expenses charged, payments made, and changes in the values of the assets held in the Investment Fund.

The Investment Fund shall be allocated at all times to Participants, except as otherwise expressly provided in the Plan. The Account of a Participant shall be credited with its share of the gains and losses of the Investment Fund. The part of a Participant's Account invested in a funding arrangement that establishes one or more accounts or investment vehicles for such Participant thereunder shall be credited with the gain or loss from such accounts or investment vehicles. The part of a Participant's Account invested in other funding arrangements shall be credited with a proportionate share of the gain or loss of such investments. The share shall be determined by multiplying the gain or loss of the investment by the ratio of the part of the Participant's Account invested in such funding arrangement to the total of the Investment Fund invested in such funding arrangement.

**Investment Manager** means any fiduciary (other than a Trustee or Named Fiduciary)

- (a) who has the power to manage, acquire, or dispose of any assets of the Plan;
- (b) who (i) is registered as an investment adviser under the Investment Advisers Act of 1940; (ii) is not registered as an investment adviser under such Act by reason of paragraph (1) of section 203A(a) of such Act, is registered as an investment adviser under the laws of the state (referred to in such paragraph (1)) in which it maintains its principal office and place of business, and, at the time it last filed the registration form most recently filed by it with such state in order to maintain its registration under the laws of such state, also filed a copy of such form with the Secretary of Labor; (iii) is a bank, as defined in that Act; or (iv) is an insurance company qualified to perform services described in subparagraph (a) above under the laws of more than one state; and
- (c) who has acknowledged in writing being a fiduciary with respect to the Plan.

**Late Retirement Date** means any day that is after a Participant's Normal Retirement Date and on which retirement benefits begin. If a Participant continues to work for the Employer after his Normal Retirement Date, his Late Retirement Date shall be the day he has a Severance from Employment. A later Retirement Date (after a Severance from Employment) may apply if the Participant so elects. See Section 5.04. In modification of the foregoing, a Participant may elect to begin his retirement benefits before he has a Severance from Employment.

**Leased Employee** means any person (other than an employee of the recipient) who, pursuant to an agreement between the recipient and any other person ("leasing organization"), has performed services for the recipient (or for the recipient and related persons determined in accordance with Code Section 414(n)(6)) on a substantially full time basis for a period of at least one year, and such services are performed under primary direction or control by the recipient. Contributions or benefits provided by the leasing organization to a Leased Employee, which are attributable to service performed for the recipient employer, shall be treated as provided by the recipient employer.

A Leased Employee shall not be considered an employee of the recipient if:

- (a) such employee is covered by a money purchase pension plan providing (i) a nonintegrated employer contribution rate of at least 10 percent of compensation, as defined in Code Section 415(c)(3), (ii) immediate participation, and (iii) full and immediate vesting, and

(b) Leased Employees do not constitute more than 20 percent of the recipient's nonhighly compensated work force.

**Loan Administrator** means the person(s) or position(s) authorized to administer the Participant loan program.

The Loan Administrator is the Chief Human Resources Officer or his or her designee.

**Mandatory Distribution** means a distribution to a Participant that is made without the Participant's consent and is made to the Participant before he attains the older of age 62 or his Normal Retirement Age.

**Matching Contributions** means Employer Contributions made in accordance with Section 3.01(b) that are contingent on a Participant's Elective Deferral Contributions.

**Monthly Date** means each Yearly Date and the same day of each following month during the Plan Year beginning on such Yearly Date.

**Named Fiduciary** means the person or persons who have authority to control and manage the operation and administration of the Plan.

The Named Fiduciary is the Primary Employer.

**Net Profits** means the Employer's current or accumulated net earnings, determined according to generally accepted accounting practices, before any Contributions made by the Employer under this Plan and before any deduction for Federal or state income tax, dividends on the Employer's stock, and capital gains or losses.

**Nonhighly Compensated Employee** means an Employee of the Employer who is not a Highly Compensated Employee.

**Nonvested Account** means the excess, if any, of a Participant's Account over his Vested Account.

**Normal Retirement Age** means the age at which the Participant's Account becomes nonforfeitable if he is an Employee. A Participant's Normal Retirement Age is the earlier of (a) or (b) below:

(a) Age 62, or if later, the Participant's age on the date five years after the first day of the Plan Year in which his Entry Date occurred.

(b) Age 65.

Notwithstanding the foregoing, the Account of a Participant who, as of December 31, 2020: (i) had attained age 60 and (ii) as to whom five years had elapsed after the first day of the Plan Year in which his Entry Date occurred, shall be nonforfeitable.

**Normal Retirement Date** means the date the Participant reaches his Normal Retirement Age. Unless otherwise provided in this Plan, a Participant's retirement benefits shall begin on his Normal Retirement Date if he has had a Severance from Employment on such date. Even if the Participant is an Employee on his Normal Retirement Date, he may choose to have his retirement benefit begin on such date.

**Parental Absence** means an Employee's absence from work:



- (a) by reason of pregnancy of the Employee,
- (b) by reason of birth of a child of the Employee,
- (c) by reason of the placement of a child with the Employee in connection with adoption of such child by such Employee, or
- (d) for purposes of caring for such child for a period beginning immediately following such birth or placement.

**Participant** means either an Active Participant or an Inactive Participant.

**Period of Military Duty** means, for an Employee

- (a) who served as a member of the armed forces of the United States, and
- (b) who was reemployed by the Employer at a time when the Employee had a right to reemployment in accordance with seniority rights as protected under Chapter 43 of Title 38 of the U.S. Code,

the period of time from the date the Employee was first absent from active work for the Employer because of such military duty to the date the Employee was reemployed.

**Period of Service** means a period of time beginning on an Employee's Employment Commencement Date and ending on his Severance Date.

**Period of Severance** means a period of time beginning on an Employee's Severance Date and ending on the date he again performs an Hour of Service.

A one-year Period of Severance means a Period of Severance of 12 consecutive months.

Solely for purposes of determining whether a one-year Period of Severance has occurred for eligibility or vesting purposes, the consecutive 12-month period beginning on the first anniversary of the first date of a Parental Absence shall not be a one-year Period of Severance.

**Plan** means the 401(k) plan of the Employer set forth in this document, including any later amendments to it.

**Plan Administrator** means the person or persons who administer the Plan, as determined under Article IX.

**Plan Fund** means the total of the Investment Fund, the guaranteed benefit policy portion of any Annuity Contract, and any Unallocated Reserve. The Investment Fund shall be valued as stated in its definition. The guaranteed benefit policy portion of any Annuity Contract shall be determined in accordance with the terms of the Annuity Contract and, to the extent that such Annuity Contract allocates contract values to Participants, allocated to Participants in accordance with its terms. The total value of all amounts held under the Plan Fund shall equal the value of the aggregate Participants' Accounts under the Plan.

**Plan Year** means a consecutive 12-month period beginning on a Yearly Date and ending on the day before the next Yearly Date. If the Yearly Date changes, the change will result in a short Plan Year.

**Predecessor Employer** means, except for purposes of Section 3.07, a firm of which the Employer was once a part (e.g., due to a spinoff or change of corporate status) or a firm absorbed by the Employer because of a merger or acquisition (stock or asset, including a division or an operation of such company).

**Pre-tax Elective Deferral Contributions** means a Participant's Elective Deferral Contributions that are not includible in the Participant's gross income at the time deferred.

**Primary Employer** means Investar Holding Corporation, which is operating as a C corporation in accordance with applicable state laws of incorporation.

**Qualified Matching Contributions** means Matching Contributions made in accordance with Section 3.01(b) that are 100% vested when made to the Plan and that are distributable only in accordance with the distribution provisions applicable to Elective Deferral Contributions, to the extent Qualified Matching Contributions can be distributed under such distribution provision.

**Qualified Military Service** means any service in the uniformed services (as defined in Chapter 43 of Title 38 of the U.S. Code) by any individual if such individual is entitled to reemployment rights under such chapter with respect to such service.

**Qualified Nonelective Contributions** means Employer Contributions (other than Elective Deferral Contributions and Qualified Matching Contributions) made in accordance with Section 3.01(c) that are 100% vested when made to the Plan and that are distributable only in accordance with the distribution provisions applicable to Elective Deferral Contributions, to the extent Qualified Nonelective Contributions can be distributed under such distribution provision.

**Qualifying Employer Securities** means common stock issued by the Employer or any Controlled Group member which is readily tradable (per IRS Notice 2011-19) on an established securities market as defined in section 1.401(a)(35)-1(f)(5)(ii) of the Treasury Regulations. If there is no common stock which meets the requirements in the preceding sentence, Qualifying Employer Securities means common stock issued by the Employer or any Controlled Group member having a combination of voting power and dividend rights equal to or in excess of (i) that class of common stock of the Employer or any Controlled Group member having the greatest voting power, and (ii) that class of common stock of the Employer or any Controlled Group member having the greatest dividend rights.

Noncallable preferred stock shall be treated as Qualifying Employer Securities if such stock is convertible at any time into stock which would meet the requirements stated above, and if such conversion is at a conversion price which (as of the date of the acquisition by the Plan) is reasonable. For purposes of the preceding sentence, under regulations prescribed by the Secretary of the Treasury, preferred stock shall be treated as noncallable if after the call there will be a reasonable opportunity for a conversion which meets the requirements of the preceding sentence.

**Qualifying Employer Securities Fund** means that part of the assets of the Trust Fund that are designated to be held primarily or exclusively in Qualifying Employer Securities for the purpose of providing benefits for Participants. Such fund shall be the employee stock ownership plan (ESOP) component of the Plan.

**Quarterly Date** means each Yearly Date and the third, sixth, and ninth Monthly Date after each Yearly Date that is within the same Plan Year.

**Reentry Date** means the date a former Active Participant reenters the Plan in accordance with Section 2.01.

**Retirement Date** means the date a retirement benefit will begin and is a Participant's Normal or Late Retirement Date, as the case may be.

**Rollover Contributions** means an amount distributed to an Employee that can be transferred directly or indirectly to this Plan from another Eligible Retirement Plan by an Eligible Employee or an Inactive Participant according to the provisions of Section 3.02.

**Roth Elective Deferral Contributions** means a Participant's Elective Deferral Contributions that are not excludible from the Participant's gross income at the time deferred and have been irrevocably designated as Roth Elective Deferral Contributions by the Participant in his Elective Deferral Agreement. Whether an Elective Deferral Contribution is not excludible from a Participant's gross income will be determined in accordance with section 1.401(k)-1 (f)(2) of the regulations. In the case of a Self-employed Individual, an Elective Deferral Contribution is not excludible from gross income only if the individual does not claim a deduction for such amount.

**Self-employed Individual** means, with respect to any taxable year, an individual who has Earned Income for the taxable year (or who would have Earned Income but for the fact the trade or business for which this Plan is established did not have net profits for such taxable year).

**Severance Date** means the earlier of:

- (a) the date on which an Employee quits, retires, dies, or is discharged, or
- (b) the first anniversary of the date an Employee begins a one-year absence from service (with or without pay). This absence may be the result of any combination of vacation, holiday, sickness, disability, leave of absence, or layoff.

Solely to determine whether a one-year Period of Severance has occurred for eligibility or vesting purposes for an Employee who is absent from service beyond the first anniversary of the first day of a Parental Absence, Severance Date is the second anniversary of the first day of the Parental Absence. The period between the first and second anniversaries of the first day of the Parental Absence is not a Period of Service and is not a Period of Severance.

**Severance from Employment** means, except for purposes of Section 3.07, an Employee has ceased to be an Employee. An Employee does not have a Severance from Employment if, in connection with a change of employment, the Employee's new employer maintains such Plan with respect to the Employee. The Plan Administrator shall determine if a Severance from Employment has occurred in accordance with the regulations that are applicable to such determination.

**Totally and Permanently Disabled** means that a Participant is actually receiving disability benefits under a separate long-term disability plan maintained by the Employer or that a Participant has been determined eligible to receive Social Security disability benefits.

**Trust Agreement** means an agreement or agreements of trust between the Primary Employer and Trustee established for the purpose of holding and distributing the Trust Fund under the provisions of the Plan. The Trust Agreement may provide for the investment of all or any portion of the Trust Fund in the Annuity Contract or any other investment arrangement.

**Trust Fund** means the total funds held under an applicable Trust Agreement. The term Trust Fund when used within a Trust Agreement shall mean only the funds held under that Trust Agreement.

**Trustee** means the party or parties named in the applicable Trust Agreement.

**Unallocated Reserve** means the portion of the Trust Fund that consists of the proceeds of an Exempt Loan, the shares of Qualifying Employer Securities that were acquired with the proceeds of an Exempt Loan and have not yet been allocated to Participant Accounts, the dividends and other investment earnings on the assets held in the Unallocated Reserve, and the proceeds from any sale of shares of Qualifying Employer Securities held in the Unallocated Reserve.

**Valuation Date** means the date on which the value of the assets of the Investment Fund is determined. The value of each Account that is maintained under this Plan shall be determined on the Valuation Date. In each Plan Year, the Valuation Date shall be the last day of the Plan Year. At the discretion of the Plan Administrator, Trustee, or Insurer (whichever applies) and in a nondiscriminatory manner, assets of the Investment Fund may be valued more frequently. These dates shall also be Valuation Dates.

**Vested Account** means the vested part of a Participant's Account. The Participant's Vested Account is determined as follows.

If the Participant's Vesting Percentage for all Employer Contributions is 100%, his Vested Account equals his Account.

If the Participant's Vesting Percentage for all Employer Contributions is not 100%, his Vested Account equals the sum of (a) and (b) below:

- (a) The part of the Participant's Account resulting from Employer Contributions made before a prior Forfeiture Date and all other Contributions that were 100% vested when made.
- (b) The balance of the Participant's Account in excess of the amount in (a) above multiplied by his Vesting Percentage.

If the Participant has received a distribution of or withdrawn any part of his Account resulting from Employer Contributions, other than the vested Employer Contributions included in (a) above and his Vesting Percentage with respect to such Contributions is less than 100%, the amount determined under this subparagraph (b) shall be equal to  $P(AB + D) - D$  as defined below:

P The Participant's Vesting Percentage.

AB The balance of the Participant's Account in excess of the amount in (a) above.

D The amount of the distribution or withdrawal resulting from Employer Contributions, other than the vested Employer Contributions included in (a) above.

**Vesting Break in Service** means a Vesting Computation Period in which an Employee is credited with 500 or fewer Hours of Service. An Employee incurs a Vesting Break in Service on the last day of a Vesting Computation Period in which he has a Vesting Break in Service.

**Vesting Computation Period** means a consecutive 12-month period ending on the last day of each Plan Year, including corresponding consecutive 12-month periods before the effective date of the Plan.

**Vesting Percentage** means the percentage used to determine the nonforfeitable portion of a Participant's Account attributable to Employer Contributions that are not 100% vested when made.

A Participant's Vesting Percentage is shown in the following schedule opposite the number of whole years of his Vesting Service.

VESTING SERVICE VESTING  
(whole years) PERCENTAGE

Less than 2	0
2	20
3	40
4	60
5	80
6 or more	100

The Vesting Percentage for a Participant who is an Employee on or after the date he reaches Normal Retirement Age shall be 100%. The Vesting Percentage for a Participant who is an Employee on the date he dies shall be 100%. The Vesting Percentage for a Participant who dies while performing Qualified Military Service shall be 100%. The Vesting Percentage for a Participant who is an Employee on the date he becomes disabled shall be 100%. The Vesting Percentage for a Participant who becomes disabled while performing Qualified Military Service shall be 100%. For purposes of this paragraph, disabled means the disability is subsequently determined to meet the definition of Totally and Permanently Disabled.

The schedule(s) used to determine a Participant's Vesting Percentage shall provide a percentage of nonforfeitable rights which is not less than the percentage that would have been provided under one of the options under Code Section 411(a)(2).

If the schedule used to determine a Participant's Vesting Percentage is changed, the new schedule shall not apply to a Participant unless he is credited with an Hour of Service on or after the date of the change and the Participant's nonforfeitable percentage on the day before the date of the change is not reduced under this Plan. The provisions of Section 10.01 regarding changes in the computation of the Vesting Percentage shall apply.

**Vesting Service** means one year of service for each Vesting Computation Period in which an Employee is credited with at least 1,000 Hours of Service.

However, Vesting Service is modified as follows:

Period of Military Duty included:

A Period of Military Duty shall be included as service with the Employer to the extent it has not already been credited. For purposes of crediting Hours of Service during the Period of Military Duty, an Hour of Service shall be credited (without regard to the 501 Hour of Service limitation) for each hour an Employee would normally have been scheduled to work for the Employer during such period.

Controlled Group service included:

An Employee's service with a member firm of a Controlled Group while both that firm and the Employer were members of the Controlled Group shall be included as service with the Employer.

**Yearly Date** means January 1, 2010, and each following January 1.

**Years of Service** means an Employee's Vesting Service disregarding any modifications that exclude service.

**ARTICLE II**  
**PARTICIPATION**

**Section 2.01--ACTIVE PARTICIPANT.**

(a) An Employee shall first become an Active Participant (begin active participation in the Plan) on the earliest Quarterly Date on which he is an Eligible Employee and has met both of the eligibility requirements set forth below. This date is his Entry Date.

(1) He has completed three months of Eligibility Service before his Entry Date.

(2) He is age 21 or older.

If the Plan's eligibility requirements are changed, an Employee who was an Active new requirements and his Entry Date shall not change.

Each Employee who was an Active Participant on the day before the effective date of this restatement (as determined in the Introduction) shall continue to be an Active Participant if he is still an Eligible Employee on such restatement effective date and his Entry Date shall not change.

If a person has been an Eligible Employee who has met all of the eligibility requirements above, but is not an Eligible Employee on the date that would have been his Entry Date, he shall become an Active Participant on the date he again becomes an Eligible Employee. This date is his Entry Date.

In the event an Employee who is not an Eligible Employee becomes an Eligible Employee, he shall become an Active Participant immediately if he has satisfied the eligibility requirements above and would have otherwise previously become an Active Participant had he met the definition of Eligible Employee. This date is his Entry Date.

(b) An Inactive Participant shall again become an Active Participant (resume active participation in the Plan) on the date he again performs an Hour of Service as an Eligible Employee. This date is his Reentry Date.

(c) A former Participant shall again become an Active Participant (resume active participation in the Plan) on the date he again performs an Hour of Service as an Eligible Employee. This date is his Reentry Date.

**Section 2.02--INACTIVE PARTICIPANT.**

An Active Participant shall become an Inactive Participant on the earlier of the following:

(a) the date he ceases to be an Eligible Employee, or

(b) the effective date of complete termination of the Plan under Article VIII.

An Employee or former Employee who was an Inactive Participant on the day before the effective date of this restatement (as determined in the Introduction) shall continue to be an Inactive Participant on such restatement effective date. Eligibility for any benefits payable to the Participant or on his behalf and the amount of the benefits shall be determined according to the provisions of the prior document, unless otherwise stated in this document or any subsequent documents.

**Section 2.03--CESSATION OF PARTICIPATION.**

A Participant shall cease to be a Participant on the date he is no longer an Eligible Employee and his Account is zero.

**Section 2.04--ADOPTING EMPLOYERS - SINGLE PLAN.**

Each of the Controlled Group members listed below is an Adopting Employer. Each Adopting Employer listed below participates with the Employer in this Plan. An Adopting Employer's agreement to participate in this Plan shall be in writing.

The Employer has the right to amend the Plan. An Adopting Employer does not have the right to amend the Plan.

If the Adopting Employer did not maintain its plan before its date of adoption specified below, its date of adoption shall be the Entry Date for any of its Employees who have met the requirements under Section 2.01 as of that date. Service with and Compensation from an Adopting Employer shall be included as service with and Compensation from the Employer. Transfer of employment, without interruption, between an Adopting Employer and another Adopting Employer or the Employer shall not be considered an interruption of service.

Contributions made by an Adopting Employer shall be treated as Contributions made by the Employer. Forfeitures arising from those Contributions shall be used for the benefit of all Participants.

An employer shall not be an Adopting Employer if it ceases to be a Controlled Group member. Such an employer may continue a retirement plan for its Employees in the form of a separate document. This Plan shall be amended to delete a former Adopting Employer from the list below.

If (i) an employer ceases to be an Adopting Employer or the Plan is amended to delete an Adopting Employer and (ii) the Adopting Employer does not continue a retirement plan for the benefit of its Employees, partial termination may result and the provisions of Article VIII shall apply.

ADOPTING EMPLOYERS

NAME	EFFECTIVE DATE OF ADOPTION
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Investar Bank	March 1, 2015
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**ARTICLE III**

**CONTRIBUTIONS**

### **Section 3.01--EMPLOYER CONTRIBUTIONS.**

Employer Contributions shall be made without regard to Net Profits. Notwithstanding the foregoing, the Plan shall continue to be designed to qualify as a profit sharing plan for purposes of Code Sections 401(a), 402, 412, and 417. Such Contributions shall be equal to the Employer Contributions as described below:

(a) Elective Deferral Contributions.

The amount of each Elective Deferral Contribution for a Participant shall be equal to a portion of Compensation as specified in an Elective Deferral Agreement. Such Elective Deferral Contribution shall not be made before the later of (i) the adoption or effective date of the cash or deferred arrangement (CODA) or (ii) the date the Participant signs the Elective Deferral Agreement. An Employee who is eligible to participate in the Plan for purposes of Elective Deferral Contributions may file an Elective Deferral Agreement with the Employer. The Participant shall modify or terminate an Elective Deferral Agreement by filing a new Elective Deferral Agreement. An Elective Deferral Agreement shall remain in effect until modified or terminated by a Participant. An Elective Deferral Agreement may also be terminated according to the terms of an automatic contribution arrangement.

An Elective Deferral Agreement to start or modify Elective Deferral Contributions shall be effective as soon as administratively feasible on or after the Participant's Entry Date (Reentry Date, if applicable) or any following Quarterly Date. An Elective Deferral Agreement must be entered into on or before the date it is effective.

An Elective Deferral Agreement to stop Elective Deferral Contributions may be entered into on any date. Such Elective Deferral Agreement shall be effective as soon as administratively feasible following the date on which the Elective Deferral Agreement is entered into.

Elective Deferral Contributions made pursuant to an Elective Deferral Agreement or the terms of an automatic contribution arrangement shall not be made earlier than the date (i) the Participant performs the services that relate to such Elective Deferral Contributions or (ii) the Compensation used to calculate such Elective Deferral Contributions would be payable to the Participant if not contributed to the Plan.

A Participant who is age 50 or older by the end of the taxable year shall be eligible to make Catch-up Contributions.

A Participant may elect to designate all or any portion of his future Elective Deferral Contributions as Roth Elective Deferral Contributions.

The Plan provides for an automatic election to have Elective Deferral Contributions made. The automatic Elective Deferral Contribution shall be Pre-tax Elective Deferral Contributions and shall be 5% of Compensation. The automatic Elective Deferral Contribution shall be automatically increased as soon as administratively feasible on or after the first day of each Plan Year by 1% up to a maximum automatic Elective Deferral Contribution of 10%. The Participant may affirmatively elect a different percentage or elect not to make Elective Deferral Contributions, and may elect to designate all or any portion of his Elective Deferral Contributions as Roth Elective Deferral Contributions.



The automatic election shall apply when a Participant first becomes eligible to make Elective Deferral Contributions (or again becomes eligible after a period during which he was not an Active Participant). The higher automatic deferral percentage shall apply to Participants at the time they enter or reenter the Plan on or after the effective date of such increase and to Participants who were already automatically enrolled as of the effective date of such increase.

Effective January 1, 2018, the automatic Elective Deferral Contribution shall apply to all Active Participants who have not elected to make Elective Deferral Contributions of at least 5% or who are not making Elective Deferral Contributions (have not completed an Elective Deferral Agreement or elected to defer 0%). The automatic Elective Deferral Contributions shall commence as soon as administratively feasible after the beginning of each Plan Year.

Upon becoming eligible and annually thereafter, the Plan shall provide Active Participants a notice that explains the automatic election and his right to elect a different rate of Elective Deferral Contributions or to elect not to make Elective Deferral Contributions, and his/her right to designate all or any portion of his Elective Deferral Contributions as Roth Elective Deferral Contributions. The notice shall include the procedure for exercising that right and the timing for implementing any such election. The Participant shall be given a reasonable period thereafter to elect a different rate of Elective Deferral Contributions or to elect not to make Elective Deferral Contributions, and to designate all or any portion of his Elective Deferral Contributions as Roth Elective Deferral Contributions.

No Participant shall be permitted to have Elective Deferral Contributions, as defined in Section 3.08, made under this Plan, or any other plan, contract, or arrangement maintained by the Employer, during any calendar year, in excess of the dollar limitation contained in Code Section 402(g) in effect for the Participant's taxable year beginning in such calendar year. The dollar limitation in the preceding sentence shall be increased by the dollar limit on Catch-up Contributions under Code Section 414(v)(2)(B)(i) for the taxable year for any Participant who will be age 50 or older by the end of the taxable year.

The dollar limitation contained in Code Section 402(g) is \$19,500 for the 2020 taxable year. This dollar limit is adjusted annually by the Secretary of the Treasury for cost-of-living increases under Code Section 402(g)(4). Any such adjustments will be in multiples of \$500.

Catch-up Contributions for a Participant for a taxable year may not exceed the dollar limit on Catch-up Contributions under Code Section 414(v)(2)(B)(i) for the taxable year. The dollar limit on Catch-up Contributions under Code Section 414(v)(2)(B)(i) is \$6,500 for the 2020 taxable year. This dollar limit is adjusted by the Secretary of the Treasury for cost-of-living increases under Code Section 414(v)(2)(C). Any such adjustments will be in multiples of \$500.

Elective Deferral Contributions are 100% vested and nonforfeitable.

(b) Matching Contributions.

The Employer shall make Matching Contributions in an amount equal to 100% of Elective Deferral Contributions. Elective Deferral Contributions that are over 4% of Compensation will not be matched. Elective Deferral Contributions that are Catch-up Contributions shall be matched.

Matching Contributions are calculated based on Elective Deferral Contributions and Compensation for the Plan Year (excluding Elective Deferral Contributions and Compensation for any portion of the Plan Year in which an Employee is not an Active Participant). Matching Contributions shall be made for all persons who were Active Participants at any time during the Plan Year. Matching Contributions are Qualified Matching Contributions and are 100% vested when made.

(c) Qualified Nonelective Contributions.

Qualified Nonelective Contributions may be made for each Plan Year in an amount determined by the Employer. Qualified Nonelective Contributions shall be made only for Nonhighly Compensated Employees. Qualified Nonelective Contributions are 100% vested when made.

(d) Discretionary Contributions.

Discretionary Contributions may be made for each Plan Year in an amount determined by the Employer. Discretionary Contributions are subject to the Vesting Percentage.

(e) ESOP Discretionary Contributions.

ESOP Discretionary Contributions will be made for each Plan Year for which a payment is due on an Exempt Loan, if any. The amount of the ESOP Discretionary Contribution for the Plan Year will be determined at the sole discretion of the Primary Employer, but will not be less than the minimum amount sufficient to enable the Trustee to make the payment due on the Exempt Loan to the extent that such payment cannot be satisfied from cash dividends paid on shares of Qualifying Employer Securities held in the Participants' Accounts (if the Primary Employer directs that such dividends be applied to the Exempt Loan), or cash dividends paid on shares of Qualifying Employer Securities held in the Unallocated Reserve or other investment earnings of the Unallocated Reserve. ESOP Discretionary Contributions are subject to the Vesting Percentage.

Employer Contributions are allocated in accordance with Section 3.05

The Employer may make all or a part of an annual Employer Contribution before the end of the Plan Year. An annual Employer Contribution is an Employer Contribution that is either (i) allocated as of the last day of the Plan Year or (ii) is based on Annual Compensation or Compensation for the Plan Year. Such Contributions that are made for or allocated to each person who was an Active Participant at any time during the Plan Year shall be allocated when made in a manner that approximates the allocation that would otherwise have been made as of the last day of the Plan Year. Succeeding allocations shall take into account amounts previously allocated for the Plan Year. The percentage of the Employer Contribution allocated to the Participant for the Plan Year shall be the same percentage that would have been allocated to him if the entire allocation had been made as of the last day of the Plan Year. Excess allocations shall be forfeited and reallocated as necessary to provide the percentage applicable to each Participant. Any other annual Employer Contributions made before the end of the Plan Year shall be held unallocated until the last day of the Plan Year. Then, as of the last day of the Plan Year, the advance Contributions (and earnings) shall be allocated in accordance with Section 3.05.

A portion of the Plan assets resulting from Employer Contributions (but not more than the original amount of those Contributions) may be returned if the Employer Contributions are made because of a mistake of fact or are more than the amount deductible under Code Section 404 (excluding any amount which is not deductible because the Plan is disqualified). The amount involved must be returned to the Employer within one year after the date the Employer Contributions are made by mistake of fact or the date the deduction is disallowed, whichever applies. Except as provided under this paragraph and in

Article VIII, the assets of the Plan shall never be used for the benefit of the Employer and are held for the exclusive purpose of providing benefits to Participants and their Beneficiaries and for defraying reasonable expenses of administering the Plan.

### **Section 3.02--ROLLOVER CONTRIBUTIONS.**

A Rollover Contribution may be made by an Eligible Employee or an Inactive Participant if the following conditions are met:

- (a) The Contribution is a Participant Rollover Contribution or a direct rollover of an Eligible Rollover Distribution made from the types of plans and types of contributions specified below.

Direct Rollovers. The Plan will accept a direct rollover of an Eligible Rollover Distribution from:

- (i) A qualified plan described in Code Section 401(a) or 403(a), including after-tax employee contributions and including any portion of a designated Roth account.
- (ii) An annuity contract described in Code Section 403(b), including after-tax employee contributions and including any portion of a designated Roth account.
- (iii) An eligible plan under Code Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state, including any portion of a designated Roth account.

Participant Rollover Contributions from Other Plans. The Plan will accept a Participant contribution of an Eligible Rollover Distribution from:

- (i) A qualified plan described in Code Section 401(a) or 403(a), excluding after-tax employee contributions and including distributions of a designated Roth account only to the extent such amount would otherwise be includible in a Participant's gross income.
- (ii) An annuity contract described in Code Section 403(b), excluding after-tax employee contributions and including distributions of a designated Roth account only to the extent such amount would otherwise be includible in a Participant's gross income.
- (iii) An eligible plan under Code Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state, including distributions of a designated Roth account only to the extent such amount would otherwise be includible in a Participant's gross income.

Participant Rollover Contributions from IRAs. The Plan will accept a Participant Rollover Contribution of the portion of a distribution from an individual retirement account or individual retirement annuity described in Code Section 408(a) or (b) that is eligible to be rolled over and would otherwise be includible in the Participant's gross income.

- (b) The Contribution is of amounts that the Code permits to be transferred to a plan that meets the requirements of Code Section 401(a).
- (c) The Contribution is made in the form of a direct rollover under Code Section 401 (a)(31) or is a rollover made under Code Section 402(c) or 408(d)(3)(A) within 60 days after an Eligible Employee or Inactive Participant receives the distribution.
- (d) The Eligible Employee or Inactive Participant furnishes evidence satisfactory to the Plan Administrator that the proposed rollover meets conditions (a), (b), and (c) above. Such evidence must be reasonable and cannot effectively eliminate or substantially impair such person's right to elect a direct rollover.
- (e) In the case of an Inactive Participant, the Contribution must be of an amount distributed from another plan of the Employer or a plan of a Controlled Group member.

Unless otherwise permitted, a Rollover Contribution shall be allowed in cash or in kind from Investar stock and must be made according to procedures set up by the Plan Administrator.

If the Eligible Employee is not an Active Participant when the Rollover Contribution is made, he shall be deemed to be an Active Participant only for the purpose of investment and distribution of the Rollover Contribution. Employer Contributions shall not be made for or allocated to the Eligible Employee until he/she meets all of the requirements to become an Active Participant.

Rollover Contributions made by an Eligible Employee or Inactive Participant shall be credited to his Account. The part of the Participant's Account resulting from Rollover Contributions is 100% vested and nonforfeitable at all times. Separate accounting records shall be maintained for those parts of his Rollover Contributions consisting of (i) voluntary contributions which were deducted from the Participant's gross income for Federal income tax purposes; (ii) after-tax employee contributions, including the portion that would not have been includible in the Participant's gross income if the contributions were not rolled over into this Plan; and (iii) any portion of a designated Roth account, including the portion that would not have been includible in the Participant's gross income if the contributions were not rolled over into this Plan.

Notwithstanding the above requirement that rollover contributions to the Plan consist of cash or Investar stock, the Plan Administrator has discretion to accept rollovers that include loans by another qualified plan to a Participant, if such Participant became a Participant in connection with the acquisition of the Participant's former employer (i.e., the sponsor of the plan under which the Participant obtained the prior plan loan). The Plan Administrator shall have full discretion whether to authorize rollovers of plan loans under any given merger or acquisition transaction, based on all surrounding facts and circumstances (including, for example, the number of loans at issue, recordkeeping feasibility, and consistency of the loan's terms with those under the Plan).

### **Section 3.03--IN-PLAN ROTH ROLLOVERS.**

All or any portion of an Eligible Rollover Distribution (an "otherwise distributable amount") may be rolled over as an In-plan Roth Rollover to a Designated Roth Account under the Plan if the following conditions are met:

- (a) The In-plan Roth Rollover is made by a Participant, a Beneficiary who is a surviving spouse, or a spouse or former spouse who is the Alternate Payee under a qualified domestic relations order, as defined in Code Section 414(p).

- (b) Such person shall be provided a written explanation describing the features of the In-plan Roth Rollover.
- (c) The In-plan Roth Rollover is a direct rollover or a 60-day rollover.
- (d) The Plan maintains such records as are necessary for the proper reporting of In-plan Roth Rollovers.
- (e) The In-plan Roth Rollover does not include any outstanding loan balance.
- (f) The Designated Roth Account resulting from an In-plan Roth Rollover shall continue to be included in the account balances for the calculation of the Top-heavy Ratio in Article XI.

### **Section 3.04--FORFEITURES.**

The Nonvested Account of a Participant shall be forfeited as of the earlier of the following:

- (a) the date the record-keeper is notified that the Participant died (if prior to such date he has had a Severance from Employment), or
- (b) the Participant's Forfeiture Date.

A Participant's Nonvested Account shall be forfeited before the earlier of (a) or (b) above if, after he has a Severance from Employment, he receives, or is deemed to receive, a distribution of his entire Vested Account under Sections 5.01, 5.03, or 10.11. The forfeiture shall occur as of the first day of the Plan Year following the Plan Year in which the Participant receives, or is deemed to receive, the distribution.

A Forfeiture of Matching Contributions that relate to excess amounts shall also occur as provided in Section 3.08.

Forfeitures shall be determined at least once during each Plan Year. Forfeitures may be used to pay administrative expenses or to reduce Employer Contributions (other than Elective Deferral Contributions), made after the Forfeitures are determined. Forfeitures that have not been used to pay administrative expenses or used to reduce Employer Contributions shall be allocated as of the last day of the Plan Year in which such Forfeitures are determined as provided in Section 3.05. Upon their allocation to Accounts, or application to reduce Employer Contributions, Forfeitures shall be deemed to be Employer Contributions.

Any portion of a Participant's nonvested account balance attributable to Qualifying Employer Securities that were purchased with an Exempt Loan will become a Forfeiture only after the portion of a Participant's account balance not attributable to Qualifying Employer Securities purchased with an Exempt Loan is forfeited. Forfeitures of Qualifying Employer Securities may be used as described in the previous paragraph.

If a Participant again becomes an Eligible Employee after receiving a distribution which caused all of his Nonvested Account to be forfeited, he shall have the right to repay to the Plan the entire amount of the distribution he received (excluding the portion of the distribution resulting from Rollover Contributions). The repayment must be made in a single sum (repayment in installments is not permitted) before the earlier of the date five years after the date he again becomes an Eligible Employee or the end of the first period of five consecutive Vesting Break in Service periods which begin after the date of the distribution of his entire Vested Account.

If the Participant makes the repayment above, the Plan Administrator shall restore to his Account an amount equal to his Nonvested Account that was forfeited on the date of distribution, unadjusted for any investment gains or losses. If no amount is to be repaid because the Participant was deemed to have received a distribution or only received a distribution of Rollover Contributions, and he again performs an Hour of Service as an Eligible Employee within the repayment period, the Plan Administrator shall restore the Participant's Account as if he had made a required repayment on the date he performed such Hour of Service. Restoration of the Participant's Account shall include restoration of all Code Section 411 (d)(6) protected benefits with respect to the restored Account, according to applicable Treasury regulations. Provided, however, the Plan Administrator shall not restore the Nonvested Account if (i) a Forfeiture Date has occurred after the date of the distribution and on or before the date of repayment and (ii) that Forfeiture Date would result in a complete forfeiture of the amount the Plan Administrator would otherwise restore.

The Plan Administrator shall restore the Participant's Account by the close of the Plan Year following the Plan Year in which repayment is made. The permissible sources for restoration of the Participant's Account are Forfeitures or special Employer Contributions. Such special Employer Contributions shall be made without regard to profits. The repaid and restored amounts are not included in the Participant's Annual Additions, as defined in Section 3.07.

### **Section 3.05--ALLOCATION.**

A person meets the allocation requirements of this section if he is an Active Participant on the last day of the Plan Year and has at least 1,000 Hours of Service during the latest Accrual Computation Period ending on or before that date; provided that the foregoing requirement shall not apply to Qualified Matching Contributions made for any Plan Year in which the Plan is designated as a safe harbor plan.

Elective Deferral Contributions shall be allocated to the Participants for whom such Contributions are made under Section 3.01. Such Contributions shall be allocated when made and credited to the Participant's Account.

Matching Contributions shall be allocated to the persons for whom such Contributions are made under Section 3.01. Such Contributions shall be allocated as of the last day of the Plan Year and shall be credited to the person's Account; provided that the Employer, in its discretion, may make such Contributions more frequently, in which event such Contributions shall be allocated when made and credited to the Participant's Account. In the event Qualified Matching Contributions are made prior to the last day of the Plan Year, the Employer shall recalculate the amount of such Contributions as of the last day of the Plan Year based upon each Participant's annualized Compensation and contribute any shortfall.

Qualified Nonelective Contributions shall be allocated as of the last day of the Plan Year to each person who was an Active Participant at any time during the Plan Year. Such Qualified Nonelective Contributions shall be allocated only to Nonhighly Compensated Employees. The amount allocated to such person for the Plan Year shall be equal to such Qualified Nonelective Contributions multiplied by the ratio of such person's Annual Compensation for the Plan Year to the total Annual Compensation of all such persons. This amount shall be credited to the person's Account.

The ESOP Discretionary Contribution for the Plan Year (if any), plus any Forfeitures of Qualifying Employer Securities, shall be allocated as of the last day of the Plan Year to each person who meets the allocation requirements of this section, but subject to Section 3.06.

If the Primary Employer directs that cash dividends be applied to an Exempt Loan, the allocation shall also include the cash dividends paid on Qualifying Employer Securities held in the Participants' Accounts.

Cash dividends paid on Qualifying Employer Securities held in the Unallocated Reserve and other investment earnings of the Unallocated Reserve (if any), shall be applied to make the payment due on any Exempt Loan for the Plan Year. The Qualifying Employer Securities released from the Unallocated Reserve as a result of that payment shall be allocated as of the last day of the Plan Year as follows:

STEP ONE: This step one shall apply only if the cash dividends paid on Qualifying Employer Securities held in the Participants' Accounts are applied to the Exempt Loan.

The allocation in this step one shall be made to each person who received a cash dividend on Qualifying Employer Securities held in his Account that was applied to the Exempt Loan.

The number of shares of Qualifying Employer Securities allocated under this step one shall be the number of shares with a value equal to or greater than the total cash dividends paid on Qualifying Employer Securities held in the Participants' Accounts and applied to the Exempt Loan. The number of shares of Qualifying Employer Securities allocated to each such person shall be determined by multiplying the number of shares of Qualifying Employer Securities to be allocated under this step one by a fraction, the numerator of which is the cash dividends paid on Qualifying Employer Securities held in the Account of such person and applied to the Exempt Loan, and the denominator of which is the total cash dividends paid on Qualifying Employer Securities held in the Accounts of all such persons and applied to the Exempt Loan.

STEP TWO: The number of shares of Qualifying Employer Securities allocated under this step two shall be the shares remaining after the allocation in step one.

The number of shares of Qualifying Employer Securities allocated to each such person shall be determined by multiplying the number of shares of Qualifying Employer Securities released from the Unallocated Reserve (and not allocated under step one) by a fraction, the numerator of which is the Annual Compensation of such person for the Plan Year, and the denominator of which is the aggregate Annual Compensation of all such persons for the Plan Year. However, if the aggregate amount of Qualifying Employer Securities that would be allocated under this paragraph to Highly Compensated Employees exceeds one-third (1/3) of the total Qualifying Employer Securities allocated, then the amount of Qualifying Employer Securities in excess of one-third (1/3) shall be reallocated to the Nonhighly Compensated Employees in proportion to each Nonhighly Compensated Employee's Annual Compensation to the total Annual Compensation of all such Nonhighly Compensated Employees.

If the ESOP Discretionary Contributions exceed the amount needed to make the payment for the Exempt Loan for the Plan Year, or if there is no Exempt Loan for the Plan Year in which the ESOP Discretionary Contribution is made, the ESOP Discretionary Contribution shall be allocated in the same manner as STEP TWO above.

Discretionary Contributions plus any Forfeitures shall be allocated as of the last day of the Plan Year, using Annual Compensation for the Plan Year. In years in which the Plan is a Top-heavy Plan, as defined in Section 11.02, and the minimum contribution under Section 11.03 is not being provided by other contributions to this Plan or another plan of the Employer, the allocation shall be made to each person meeting the allocation requirements of this section and each person entitled to a minimum contribution under Section 11.03. In all other years, the allocation shall be made to each person meeting the allocation requirements of this section. The amount allocated shall be equal to the Discretionary Contributions plus any Forfeitures multiplied by the ratio of such person's Annual Compensation to the total Annual Compensation for all such persons. The allocation for any person who does not meet the

allocation requirements of this section shall be limited to the amount necessary to fund the minimum contribution.

In years in which the Plan is a Top-heavy Plan, the minimum contribution under Section 11.03 is not being provided by other contributions to this Plan or another plan of the Employer, and the allocation described above (or any subsequent allocation described below) would provide an allocation for any person less than the minimum contribution required for such person under Section 11.03, such minimum contribution shall first be allocated to all such persons. Then any amount remaining shall be allocated to the remaining persons sharing in the allocation based on Annual Compensation as described above, as if they were the only persons sharing in the allocation for the Plan Year. This amount shall be credited to the person's Account.

If Leased Employees are Eligible Employees, in determining the amount of Employer Contributions allocated to a person who is a Leased Employee, contributions provided by the leasing organization that are attributable to services such Leased Employee performs for the Employer shall be treated as provided by the Employer. Those contributions shall not be duplicated under this Plan.

### **Section 3.06--PROHIBITED ALLOCATIONS OF QUALIFYING EMPLOYER SECURITIES.**

Notwithstanding any contrary provision of the Plan, Qualifying Employer Securities will not be allocated under the following circumstances.

- (a) Sale under Code Section 1042. Qualifying Employer Securities that have been acquired by the Plan in a sale to which Code Section 1042 applies shall not be allocated during the non-allocation period directly or indirectly under the Plan (or any qualified plan of any Employer) to the Accounts of:
- (1) The individual who makes the election under Code Section 1042.
  - (2) Any individual who is related (within the meaning of Code Section 267(b)) to the individual who makes the election under Code Section 1042. However, this paragraph shall not apply to lineal descendants of the individual who makes the election under Code Section 1042, provided that the aggregate amount allocated to the benefit of such lineal descendants during the non-allocation period does not exceed more than five percent (5%) of the Qualifying Employer Securities (or amounts allocated in lieu thereof) held by the Plan which are attributable to a sale to the Plan by any person related to such descendants (within the meaning of Code Section 267(c)(4)) in a transaction subject to Code Section 1042.

The "non-allocation period" is the period for this purpose beginning on the date of the sale of the Qualifying Employer Securities to the Plan and ending on the later of the date which is ten (10) years after the date of sale or the date of the allocation attributable to the final payment of an Exempt Loan incurred in connection with such sale to the Plan.

Further, notwithstanding any contrary provision of the Plan, Qualifying Employer Securities that have been acquired by the Plan in a sale to which Code Section 1042 applies shall not be allocated, during or after the non-allocation period, directly or indirectly under the Plan (or any qualified plan of any Employer) to the Account of any individual who owns (after application of the aggregation rules of Code Section 318(a) applied without regard to the employee trust exception in Code Section 318(a)(2)(B)(i))



more than twenty five percent (25%) of any class of outstanding stock of any Employer, or the total value of any class of outstanding stock of the Employer.

### **Section 3.07--CONTRIBUTION LIMITATION.**

Contributions to the Plan shall be limited in accordance with Code Section 415 and the regulations thereunder.

(a) Definitions. For the purpose of determining the contribution limitation set forth in this section, the following terms are defined.

**Annual Additions** means the sum of the following amounts credited to a Participant's account for the Limitation Year:

- (1) employer contributions, provided that ESOP Discretionary Contributions under this Plan that are applied to pay interest on an Exempt Loan and/or Forfeitures of Qualifying Employer Securities that were purchased with an Exempt Loan will not be an Annual Addition if no more than one-third (1/3) of the ESOP Discretionary Contribution that is applied to pay principal or interest on an Exempt Loan for the Plan Year is allocated to the accounts of Highly Compensated Employees. To the extent Qualifying Employer Securities are allocated to Participants' Accounts, the lesser of fair market value of the Qualifying Employer Security allocated or the employer contribution used to release such share in the case of repayment of an Exempt Loan, shall be used for purposes of measuring Annual Additions;
- (2) employee contributions; and
- (3) forfeitures.

Annual Additions to a defined contribution plan, as defined in section 1.415(c)-1(a)(2)(i) of the regulations, shall also include the following:

- (4) mandatory employee contributions, as defined in Code Section 411 (c)(2)(C) and section 1.411(c)-1 (c)(4) of the regulations, to a defined benefit plan;
- (5) contributions allocated to any individual medical benefit account, as defined in Code Section 415(l)(2), which is part of a pension or annuity plan maintained by the Employer;
- (6) amounts attributable to post-retirement medical benefits, allocated to the separate account of a key employee, as defined in Code Section 419A(d)(3), under a welfare benefit fund, as defined in Code Section 419(e), maintained by the Employer;
- (7) annual additions under an annuity contract described in Code Section 403(b); and
- (8) allocations under a simplified employee pension.

**Compensation** means wages, salaries, Differential Wage Payments, and fees for professional services and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of

employment with the Employer maintaining the plan to the extent that the amounts are includible in gross income (including, but not limited to, commissions paid to salespersons, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, and reimbursements or other expense allowances under a nonaccountable plan (as described in section 1.62-2(c) of the regulations)), and excluding the following:

- (1) employer contributions (other than elective contributions described in Code Section 402(e)(3), 408(k)(6), 408(p)(2)(A)(i), or 457(b)) to a plan of deferred compensation (including a simplified employee pension described in Code Section 408(k) or a simple retirement account described in Code Section 408(p), and whether or not qualified) to the extent such contributions are not includible in the employee's gross income for the taxable year in which contributed, and any distributions (whether or not includible in gross income when distributed) from a plan of deferred compensation (whether or not qualified);
- (2) amounts realized from the exercise of a nonstatutory stock option (that is, an option other than a statutory stock option as defined in section 1.421-1(b) of the regulations), or when restricted stock (or property) held by the employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;
- (3) amounts realized from the sale, exchange or other disposition of stock acquired under a statutory stock option;
- (4) other amounts that receive special tax benefits, such as premiums for group-term life insurance (but only to the extent that the premiums are not includible in the gross income of the employee and are not salary reduction amounts that are described in Code Section 125); and
- (5) other items of remuneration that are similar to any of the items listed in (1) through (4) above.

For any Self-employed Individual, Compensation shall mean Earned Income.

Except as provided herein, Compensation for a Limitation Year is the Compensation actually paid or made available (or if earlier, includible in gross income) during such Limitation Year.

Compensation for a Limitation Year shall also include Compensation paid by the later of 2 1/2 months after an employee's Severance from Employment with the Employer maintaining the plan or the end of the Limitation Year that includes the date of the employee's Severance from Employment with the Employer maintaining the plan, if the payment is regular Compensation for services during the employee's regular working hours, or Compensation for services outside the employee's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, and, absent a Severance from Employment, the payments would have been paid to the employee while the employee continued in employment with the Employer.

Any payments not described above shall not be considered Compensation if paid after Severance from Employment, even if they are paid by the later of 2 1/2 months after the date of Severance from Employment or the end of the Limitation Year that includes the date of Severance from Employment.

Back pay, within the meaning of section 1.415(c)-2(g)(8) of the regulations, shall be treated as Compensation for the Limitation Year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included in this definition.

Compensation paid or made available during such Limitation Year shall include amounts that would otherwise be included in Compensation but for an election under Code Section 125(a), 132(f)(4), 402(e)(3), 402(h)(1)(B), 402(k), or 457(b).

Compensation shall not include amounts paid as Compensation to a nonresident alien, as defined in Code Section 7701(b)(1)(B), who is not a Participant in the Plan to the extent the Compensation is excludible from gross income and is not effectively connected with the conduct of a trade or business within the United States.

**Defined Contribution Dollar Limitation** means \$57,000, automatically adjusted under Code Section 415(d), effective January 1 of each year, as published in the Internal Revenue Bulletin. The new limitation shall apply to Limitation Years ending with or within the calendar year of the date of the adjustment, but a Participant's Annual Additions for a Limitation Year cannot exceed the currently applicable dollar limitation (as in effect before the January 1 adjustment) prior to January 1. However, after a January 1 adjustment is made, Annual Additions for the entire Limitation Year are permitted to reflect the dollar limitation as adjusted on January 1.

**Employer** means the employer that adopts this Plan, and all members of a controlled group of corporations (as defined in Code Section 414(b) as modified by Code Section 415(h)), all commonly controlled trades or businesses (as defined in Code Section 414(c), as modified, except in the case of a brother-sister group of trades or businesses under common control, by Code Section 415(h)), or affiliated service groups (as defined in Code Section 414(m)) of which the adopting employer is a part, and any other entity required to be aggregated with the employer pursuant to Code Section 414(o).

**Limitation Year** means the consecutive 12-month period ending on the last day of each Plan Year, including corresponding consecutive 12-month periods before the original effective date of the Plan. All qualified plans maintained by the Employer must use the same Limitation Year. If the Limitation Year is other than the calendar year, execution of this Plan (or any amendment to this Plan changing the Limitation Year) constitutes the Employer's adoption of a written resolution electing the Limitation Year. If the Limitation Year is amended to a different consecutive 12-month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.

**Maximum Annual Addition** means, except for Catch-up Contributions, the Annual Addition that may be contributed or allocated to a Participant's Account under the Plan for any Limitation Year. This amount shall not exceed the lesser of:

- (1) The Defined Contribution Dollar Limitation, or
- (2) 100 percent of the Participant's Compensation for the Limitation Year.

A Participant's Compensation for a Limitation Year shall not include Compensation in excess of the limitation under Code Section 401(a)(17) that is in effect for the calendar year in which the Limitation Year begins.

The compensation limitation referred to in (2) shall not apply to an individual medical benefit account (as defined in Code Section 415(l)); or a post-retirement medical benefits account for a key employee (as defined in Code Section 419A(d)(1)).

If a short Limitation Year is created because of an amendment changing the Limitation Year to a different consecutive 12-month period, the Maximum Annual Addition will not exceed the Defined Contribution Dollar Limitation multiplied by the following fraction:

$$\frac{\text{Number of months (including any fractional parts of a month)} \\ \text{in the short Limitation Year}}{12}$$

If the Plan is terminated as of a date other than the last day of the Limitation Year, the Plan is treated as if the Plan was amended to change the Limitation Year and create a short Limitation Year ending on the date the Plan is terminated.

If a short Limitation Year is created, the limitation under Code Section 401(a)(17) shall be prorated in the same manner as the Defined Contribution Dollar Limitation.

**Predecessor Employer** means, with respect to a Participant, a former employer if the Employer maintains a plan that provides a benefit which the Participant accrued while performing services for the former employer. Predecessor Employer also means, with respect to a Participant, a former entity that antedates the Employer if, under the facts and circumstances, the Employer constitutes a continuation of all or a portion of the trade or business of the former entity.

**Severance from Employment** means an employee has ceased to be an employee of the Employer maintaining the plan. An employee does not have a Severance from Employment if, in connection with a change of employment, the employee's new employer maintains the plan with respect to the employee.

- (b) If the Participant does not participate in another defined contribution plan, as defined in section 1.415(c)-1 (a)(2)(i) of the regulations (without regard to whether the plan(s) have been terminated) maintained by the Employer, the amount of Annual Additions that may be credited to the Participant's Account for any Limitation Year shall not exceed the lesser of the Maximum Annual Addition or any other limitation contained in this Plan. If the Employer Contribution that would otherwise be contributed or allocated to the Participant's Account would cause the Annual Additions for the Limitation Year to exceed the Maximum Annual Addition, the amount contributed or allocated shall be reduced so that the Annual Additions for the Limitation Year will equal the Maximum Annual Addition.
- (c) If, in addition to this Plan, the Participant is covered under another defined contribution plan, as defined in section 1.415(c)-1(a)(2)(i) of the regulations, (without regard to whether the plan(s) have been terminated) maintained by the Employer that provides an Annual Addition during any Limitation Year, the Annual Additions that may be credited to a Participant's Account under this Plan for any such Limitation Year will not exceed the Maximum Annual Addition, reduced by the Annual Additions credited to a Participant's account under the other defined contribution plan(s) for the same Limitation Year. If the Annual Additions with respect to the Participant under the other defined contribution plan(s) maintained by the Employer are less than the Maximum Annual Addition, and the Employer Contribution that would otherwise be contributed or allocated to the Participant's Account under this Plan would cause the Annual Additions for the Limitation Year to exceed this limitation, the amount contributed or allocated will be reduced so that the Annual Additions under all such plans and funds for the Limitation Year will equal the

Maximum Annual Addition. If the Annual Additions with respect to the Participant under the other defined contribution plan(s) in the aggregate are equal to or greater than the Maximum Annual Addition, no amount will be contributed or allocated to the Participant's Account under this Plan for the Limitation Year.

(d) The limitation of this section shall be determined and applied taking into account the following rules:

- (1) Aggregating Plans. For purposes of applying the limitations of this section for a Limitation Year, all defined contribution plans (as defined in section 1.415(c)-1(a)(2)(i) of the regulations and without regard to whether the plan(s) have been terminated) ever maintained by the Employer and all defined contribution plans of a Predecessor Employer (in the Limitation Year in which such Predecessor Employer is created) under which a Participant receives Annual Additions are treated as one defined contribution plan.
- (2) Break-up of Affiliated Employers. The Annual Additions under a formerly affiliated plan (as defined in section 1.415(f)-1(b)(2)(ii) of the regulations) of the Employer are taken into account for purposes of applying the limitations of this section for the Limitation Year in which the cessation of affiliation took place.
- (3) Previously Unaggregated Plans. The limitations of this section are not exceeded for the first Limitation Year in which two or more existing plans, which previously were not required to be aggregated pursuant to section 1.415(f) of the regulations, are aggregated, provided that no Annual Additions are credited to a Participant after the date on which the plans are required to be aggregated if the Annual Additions already credited to the Participant in the existing plans equal or exceed the Maximum Annual Addition.
- (4) Aggregation with Multiemployer Plan. If the Employer maintains a multiemployer plan, as defined in Code Section 414(f), and the multiemployer plan so provides, only the Annual Additions under the multiemployer plan that are provided by the Employer shall be treated as Annual Additions provided under a plan maintained by the Employer for purposes of this section.

### Section 3.08--EXCESS AMOUNTS.

(a) Definitions. For purposes of this section, the following terms are defined:

**ACP** means, for a specified group of Participants (either Highly Compensated Employees or Nonhighly Compensated Employees) for a Plan Year, the average (expressed as a percentage) of the Contribution Percentages of the Eligible Participants in the group.

**ADP** means, for a specified group of Participants (either Highly Compensated Employees or Nonhighly Compensated Employees) for a Plan Year, the average (expressed as a percentage) of the Deferral Percentages of the Eligible Participants in the group.

**Contribution Percentage** means the ratio (expressed as a percentage) of the Eligible Participant's Contribution Percentage Amounts to the Eligible Participant's Compensation (excluding Differential Wage Payments) for the Plan Year (whether or not the Eligible Participant was an Eligible Participant for the entire Plan Year). For an Eligible Participant

for whom such Contribution Percentage Amounts for the Plan Year are zero, the percentage is zero.

**Contribution Percentage Amounts** means the sum of the Participant Contributions and Matching Contributions (that are not Qualified Matching Contributions taken into account for purposes of the ADP Test) made under the plan on behalf of the Eligible Participant for the plan year. Contribution Percentage Amounts shall not include Participant Contributions withheld from Differential Wage Payments and Matching Contributions based on Elective Deferral Contributions and Participant Contributions withheld from such Differential Wage Payments. Matching Contributions cannot be taken into account for a plan year for a Nonhighly Compensated Employee to the extent they are disproportionate matching contributions as defined in section 1.401 (m)-2(a)(5)(ii) of the regulations. Such Contribution Percentage Amounts shall not include Matching Contributions that are forfeited (i) to correct Excess Aggregate Contributions; or (ii) because the contributions to which they relate are Excess Elective Deferrals, Excess Contributions, or Excess Aggregate Contributions. Under such rules as the Secretary of the Treasury shall prescribe, in determining the Contribution Percentage the Employer may elect to include Qualified Nonelective Contributions under this Plan that were not used in computing the Deferral Percentage. Qualified Nonelective Contributions cannot be taken into account for a Plan Year for a Nonhighly Compensated Employee to the extent they are disproportionate contributions as defined in section 1.401(m)-2(a)(6)(v) of the regulations. The Employer may also elect to use Elective Deferral Contributions in computing the Contribution Percentage so long as the ADP Test is met before the Elective Deferral Contributions are used in the ACP Test and continues to be met following the exclusion of those Elective Deferral Contributions that are used to meet the ACP Test.

**Deferral Percentage** means the ratio (expressed as a percentage) of Elective Deferral Contributions (other than Catch-up Contributions and Elective Deferral Contributions withheld from Differential Wage Payments) under this Plan on behalf of the Eligible Participant for the Plan Year to the Eligible Participant's Compensation (excluding Differential Wage Payments) for the Plan Year (whether or not the Eligible Participant was an Eligible Participant for the entire Plan Year). The Elective Deferral Contributions used to determine the Deferral Percentage shall include Excess Elective Deferrals (other than Excess Elective Deferrals of Nonhighly Compensated Employees that arise solely from Elective Deferral Contributions made under this Plan or any other plans of the Employer or a Controlled Group member), but shall exclude Elective Deferral Contributions that are used in computing the Contribution Percentage (provided the ADP Test is satisfied both with and without exclusion of these Elective Deferral Contributions). Under such rules as the Secretary of the Treasury shall prescribe, the Employer may elect to include Qualified Nonelective Contributions and Qualified Matching Contributions under this Plan in computing the Deferral Percentage. Qualified Matching Contributions cannot be taken into account for a Plan Year for a Nonhighly Compensated Employee to the extent they are disproportionate matching contributions as defined in section 1.401(m)-2(a)(5)(ii) of the regulations. Qualified Nonelective Contributions cannot be taken into account for a Plan Year for a Nonhighly Compensated Employee to the extent they are disproportionate contributions as defined in section 1.401(k)-2(a)(6)(iv) of the regulations. For an Eligible Participant for whom such contributions made on his behalf for the Plan Year are zero, the percentage is zero.

**Elective Deferral Contributions** means any employer contributions made to a plan at the election of a participant in lieu of cash compensation. With respect to any taxable year, a participant's Elective Deferral Contributions are the sum of all employer contributions made on behalf of such participant pursuant to an election to defer under

any qualified cash or deferred arrangement (CODA) described in Code Section 401(k), any salary reduction simplified employee pension plan described in Code Section 408(k)(6), any SIMPLE IRA plan described in Code Section 408(p), any plan described under Code Section 501(c)(18), and any employer contributions made on behalf of a participant for the purchase of an annuity contract under Code Section 403(b) pursuant to a salary reduction agreement. Elective Deferral Contributions include Pre-tax Elective Deferral Contributions and Roth Elective Deferral Contributions. Elective Deferral Contributions shall not include any deferrals properly distributed as excess annual additions.

**Eligible Participant** means, for purposes of determining the Deferral Percentage, any Employee who is otherwise entitled to make Elective Deferral Contributions under the terms of the plan for the plan year. Eligible Participant means, for purposes of determining the Contribution Percentage, any Employee who is eligible (i) to make a Participant Contribution or an Elective Deferral Contribution (if the Employer takes such contributions into account in the calculation of the Contribution Percentage), or (ii) to receive a Matching Contribution (including forfeitures) or a Qualified Matching Contribution. If a Participant Contribution is required as a condition of participation in the plan, any Employee who would be a participant in the plan if such Employee made such a contribution shall be treated as an Eligible Participant on behalf of whom no Participant Contributions are made.

**Excess Aggregate Contributions** means, with respect to any Plan Year, the excess of:

- (1) The aggregate Contribution Percentage Amounts taken into account in computing the numerator of the Contribution Percentage actually made on behalf of Highly Compensated Employees for such Plan Year, over
- (2) The maximum Contribution Percentage Amounts permitted by the ACP Test (determined by hypothetically reducing contributions made on behalf of Highly Compensated Employees in order of their Contribution Percentages beginning with the highest of such percentages).

Such determination shall be made after first determining Excess Elective Deferrals and then determining Excess Contributions.

**Excess Contributions** means, with respect to any Plan Year, the excess of:

- (1) The aggregate amount of employer contributions actually taken into account in computing the Deferral Percentage of Highly Compensated Employees for such Plan Year, over
- (2) The maximum amount of such contributions permitted by the ADP Test (determined by hypothetically reducing contributions made on behalf of Highly Compensated Employees in the order of the Deferral Percentages, beginning with the highest of such percentages).

**Excess Elective Deferrals** means those Elective Deferral Contributions of a Participant that either (i) are made during the Participant's taxable year and exceed the dollar limitation under Code Section 402(g) or (ii) are made during a calendar year and exceed the dollar limitation under Code Section 402(g) for the Participant's taxable year beginning in such calendar year, counting only Elective Deferral Contributions made under this Plan and any other plan, contract, or arrangement maintained by the

Employer. The dollar limitation shall be increased by the dollar limit on Catch-up Contributions under Code Section 414(v).

Excess Elective Deferrals shall be treated as Annual Additions, as defined in Section 3.07, under the Plan, unless such amounts are distributed no later than the first April 15 following the close of the Participant's taxable year.

**Matching Contributions** means employer contributions made to this or any other defined contribution plan, or to a contract described in Code Section 403(b), on behalf of a participant on account of a Participant Contribution made by such participant, or on account of a participant's Elective Deferral Contributions, under a plan maintained by the Employer or a Controlled Group member.

**Participant Contributions** means contributions (other than Roth Elective Deferral Contributions) made to the plan by or on behalf of a participant that are included in the participant's gross income in the year in which made and that are maintained under a separate account to which the earnings and losses are allocated.

**Pre-tax Elective Deferral Contributions** means a participant's Elective Deferral Contributions that are not includible in the participant's gross income at the time deferred.

**Qualified Matching Contributions** means Matching Contributions that are nonforfeitable when made to the plan and that are distributable only in accordance with the distribution provisions applicable to Elective Deferral Contributions, to the extent Qualified Matching Contributions can be distributed under such distribution provision.

**Qualified Nonelective Contributions** means any employer contributions (other than Matching Contributions) that an Employee may not elect to have paid to him in cash instead of being contributed to the plan and that are nonforfeitable when made to the plan and that are distributable only in accordance with the distribution provisions applicable to Elective Deferral Contributions, to the extent Qualified Nonelective Contributions can be distributed under such distribution provision.

**Roth Elective Deferral Contributions** means a participant's Elective Deferral Contributions that are not excludible from the participant's gross income at the time deferred and have been irrevocably designated as Roth Elective Deferral Contributions by the participant in his elective deferral agreement. Whether an Elective Deferral Contribution is not excludible from a participant's gross income will be determined in accordance with section 1.401(k)-1(f)(2) of the regulations. In the case of a self-employed individual, an Elective Deferral Contribution is not excludible from gross income only if the individual does not claim a deduction for such amount.

- (b) Excess Elective Deferrals. A Participant may assign to this Plan any Excess Elective Deferrals made during a taxable year of the Participant by notifying the Plan Administrator in writing on or before the first following March 1 of the amount of the Excess Elective Deferrals to be assigned to the Plan. A Participant is deemed to notify the Plan Administrator of any Excess Elective Deferrals that arise by taking into account only those Elective Deferral Contributions made to this Plan and any other plan, contract, or arrangement of the Employer or a Controlled Group member. The Participant's claim for Excess Elective Deferrals shall be accompanied by the Participant's written statement that if such amounts are not distributed, such Excess Elective Deferrals will exceed the limit imposed on the Participant by Code Section 402(g) (including, if applicable, the dollar limitation on Catch-up Contributions under Code Section 414(v)) for the year in which the deferral occurred. The Excess Elective Deferrals assigned to this Plan cannot



exceed the Elective Deferral Contributions allocated under this Plan for such taxable year.

Notwithstanding any other provisions of the Plan, Elective Deferral Contributions in an amount equal to the Excess Elective Deferrals assigned to this Plan, plus any income and minus any loss allocable thereto, shall be distributed no later than April 15 to any Participant to whose Account

Excess Elective Deferrals were assigned for the preceding year and who claims Excess Elective Deferrals for such taxable year or calendar year.

Distribution of Excess Elective Deferral Contributions shall be made first from the Participant's Account resulting from Pre-tax Elective Deferral Contributions, to the extent Pre-tax Elective Deferral Contributions were made for the year.

The Excess Elective Deferrals shall be adjusted for any income or loss. The income or loss allocable to such Excess Elective Deferrals shall be equal to the income or loss allocable to the Participant's Elective Deferral Contributions for the taxable year in which the excess occurred multiplied by a fraction. The numerator of the fraction is the Excess Elective Deferrals. The denominator of the fraction is the closing balance without regard to any income or loss occurring during such taxable year (as of the end of such taxable year) of the Participant's Account resulting from Elective Deferral Contributions.

For purposes of determining income or loss on Excess Elective Deferrals, no adjustment shall be made for income or loss for the gap period.

Any Matching Contributions that were based on the Elective Deferral Contributions distributed as Excess Elective Deferrals, plus any income and minus any loss allocable thereto, shall be forfeited.

- (c) ADP Test. As of the end of each Plan Year after Excess Elective Deferrals have been determined, the Plan must satisfy the ADP Test. The ADP Test shall be satisfied using the current year testing method described below.

The ADP for a Plan Year for Eligible Participants who are Highly Compensated Employees for each Plan Year and the ADP for Eligible Participants who are Nonhighly Compensated Employees for the Plan Year must satisfy one of the following tests:

- (1) The ADP for a Plan Year for Eligible Participants who are Highly Compensated Employees for the Plan Year shall not exceed the ADP for Eligible Participants who are Nonhighly Compensated Employees for the Plan Year multiplied by 1.25; or
- (2) The ADP for a Plan Year for Eligible Participants who are Highly Compensated Employees for the Plan Year:
  - (i) shall not exceed the ADP for Eligible Participants who are Nonhighly Compensated Employees for the Plan Year multiplied by 2, and
  - (ii) the difference between such ADPs is not more than 2.

The election to use the current year testing method cannot be changed unless (i) the Plan has been using the current year testing method for the preceding five (5) Plan Years, or if less, the number of Plan Years the Plan has been in existence; or (ii) if as a

result of a merger or acquisition described in Code Section 410(b)(6)(C)(i), the Employer maintains both a plan using the prior year testing method and a plan using the current year testing method and the change is made within the transition period described in Code Section 410(b)(6)(C)(ii).

A Participant is a Highly Compensated Employee for a particular Plan Year if he meets the definition of a Highly Compensated Employee in effect for that Plan Year. Similarly, a Participant is a Nonhighly Compensated Employee for a particular Plan Year if he does not meet the definition of a Highly Compensated Employee in effect for that Plan Year.

The Deferral Percentage for any Eligible Participant who is a Highly Compensated Employee for the Plan Year and who is eligible to have Elective Deferral Contributions (and Qualified Nonelective Contributions or Qualified Matching Contributions, or both, if treated as Elective Deferral Contributions for purposes of the ADP Test) allocated to his account under two or more arrangements described in Code Section 401(k) that are maintained by the Employer or a Controlled Group member shall be determined as if such Elective Deferral Contributions (and, if applicable, such Qualified Nonelective Contributions or Qualified Matching Contributions, or both) were made under a single arrangement. If a Highly Compensated Employee participates in two or more cash or deferred arrangements of the Employer or of a Controlled Group member that have different plan years, all Elective Deferral Contributions made during the Plan Year shall be aggregated. The foregoing notwithstanding, certain plans shall be treated as separate if mandatorily disaggregated under the regulations of Code Section 401(k).

In the event this Plan satisfies the requirements of Code Section 401(k), 401(a)(4), or 410(b) only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of such Code sections only if aggregated with this Plan, then this section shall be applied by determining the Deferral Percentage of Employees as if all such plans were a single plan. Plans may be aggregated in order to satisfy Code Section 401(k) only if they have the same plan year and use the same testing method for the ADP Test.

For purposes of the ADP Test, Elective Deferral Contributions, Qualified Nonelective Contributions, and Qualified Matching Contributions must be made before the end of the 12-month period immediately following the Plan Year to which the contributions relate.

If the Plan Administrator should determine during the Plan Year that the ADP Test is not being met, the Plan Administrator may limit the amount of future Elective Deferral Contributions of the Highly Compensated Employees.

Notwithstanding any other provisions of this Plan, Excess Contributions, plus any income and minus any loss allocable thereto, shall be distributed no later than 12 months after the last day of a Plan Year to Participants to whose Accounts such Excess Contributions were allocated for such Plan Year, except to the extent such Excess Contributions are classified as Catch-up Contributions. Excess Contributions are allocated to the Highly Compensated Employees with the largest amounts of employer contributions taken into account in calculating the ADP Test for the year in which the excess arose, beginning with the Highly Compensated Employee with the largest amount of such employer contributions and continuing in descending order until all of the Excess Contributions have been allocated. If a Highly Compensated Employee participates in two or more cash or deferred arrangements of the Employer or of a Controlled Group member, the amount distributed shall not exceed the amount of the employer contributions taken into account in calculating the ADP test and made to this Plan for the year in which the excess arose. If Catch-up Contributions are allowed for the Plan Year being tested, to the extent a

Highly Compensated Employee has not reached his Catch-up Contribution limit under the Plan for such year, Excess Contributions allocated to such Highly Compensated Employee are Catch-up Contributions and will not be treated as Excess Contributions. If such excess amounts (other than Catch-up Contributions) are distributed more than 2 1/2 months after the last day of the Plan Year in which such excess amounts arose, a 10 percent excise tax shall be imposed on the employer maintaining the plan with respect to such amounts.

Excess Contributions shall be treated as Annual Additions, as defined in Section 3.07, even if distributed.

The Excess Contributions shall be adjusted for any income or loss. The income or loss allocable to such Excess Contributions allocated to each Participant shall be equal to the income or loss allocable to the Participant's Elective Deferral Contributions (and, if applicable, Qualified Nonelective Contributions or Qualified Matching Contributions, or both) for the Plan Year in which the excess occurred multiplied by a fraction. The numerator of the fraction is the Excess Contributions. The denominator of the fraction is the closing balance without regard to any income or loss occurring during such Plan Year (as of the end of such Plan Year) of the Participant's Account resulting from Elective Deferral Contributions (and Qualified Nonelective Contributions or Qualified Matching Contributions, or both, if such contributions are included in the ADP Test).

For purposes of determining income or loss on Excess Contributions, no adjustment shall be made for income or loss for the gap period.

Excess Contributions allocated to a Participant shall be distributed from the Participant's Account resulting from Elective Deferral Contributions. If such Excess Contributions exceed the amount of Excess Contributions in the Participant's Account resulting from Elective Deferral Contributions, the balance shall be distributed from the Participant's Account resulting from Qualified Matching Contributions (if applicable) and Qualified Nonelective Contributions, respectively.

Distribution of Excess Contributions shall be made first from the Participant's Account resulting from Pre-tax Elective Deferral Contributions, to the extent Pre-tax Elective Deferral Contributions were made for the year.

Any Matching Contributions that were based on the Elective Deferral Contributions distributed as Excess Contributions, plus any income and minus any loss allocable thereto, shall be forfeited.

- (d) ACP Test. As of the end of each Plan Year, the Plan must satisfy the ACP Test. The ACP Test shall be satisfied using the current year testing method described below.

The ACP for a Plan Year for Eligible Participants who are Highly Compensated Employees for each Plan Year and the ACP for Eligible Participants who are Nonhighly Compensated Employees for the Plan Year must satisfy one of the following tests:

- (1) The ACP for a Plan Year for Eligible Participants who are Highly Compensated Employees for the Plan Year shall not exceed the ACP for Eligible Participants who are Nonhighly Compensated Employees for the Plan Year multiplied by 1.25; or
- (2) The ACP for a Plan Year for Eligible Participants who are Highly Compensated Employees for the Plan Year:

- (i) shall not exceed the ACP for Eligible Participants who are Nonhighly Compensated Employees for the Plan Year multiplied by 2, and
- (ii) the difference between such ACPs is not more than 2.

The election to use the current year testing method cannot be changed unless (i) the Plan has been using the current year testing method for the preceding five Plan Years, or if less, the number of Plan Years the Plan has been in existence; or (ii) if as a result of a merger or acquisition described in Code Section 410(b)(6)(C)(i), the Employer maintains both a plan using the prior year testing method and a plan using the current year testing method and the change is made within the transition period described in Code Section 410(b)(6)(C)(ii).

A Participant is a Highly Compensated Employee for a particular Plan Year if he meets the definition of a Highly Compensated Employee in effect for that Plan Year. Similarly, a Participant is a Nonhighly Compensated Employee for a particular Plan Year if he does not meet the definition of a Highly Compensated Employee in effect for that Plan Year.

The Contribution Percentage for any Eligible Participant who is a Highly Compensated Employee for the Plan Year and who is eligible to have Contribution Percentage Amounts allocated to his account under two or more plans described in Code Section 401(a) or arrangements described in Code Section 401(k) that are maintained by the Employer or a Controlled Group member shall be determined as if the total of such Contribution Percentage Amounts was made under each plan and arrangement. If a Highly Compensated Employee participates in two or more such plans or arrangements that have different plan years, all Contribution Percentage Amounts made during the Plan Year shall be aggregated. The foregoing notwithstanding, certain plans shall be treated as separate if mandatorily disaggregated under the regulations of Code Section 401(m).

In the event this Plan satisfies the requirements of Code Section 401(m), 401(a)(4), or 410(b) only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of such Code sections only if aggregated with this Plan, then this section shall be applied by determining the Contribution Percentage of Employees as if all such plans were a single plan. Plans may be aggregated in order to satisfy Code Section 401(m) only if they have the same plan year and use the same testing method for the ACP Test.

For purposes of the ACP Test, Participant Contributions are considered to have been made in the Plan Year in which contributed to the Plan. Matching Contributions and Qualified Nonelective Contributions will be considered to have been made for a Plan Year if made no later than the end of the 12-month period beginning on the day after the close of the Plan Year.

Notwithstanding any other provisions of this Plan, Excess Aggregate Contributions, plus any income and minus any loss allocable thereto, shall be forfeited, if not vested, or distributed, if vested, no later than 12 months after the last day of a Plan Year to Participants to whose Accounts such Excess Aggregate Contributions were allocated for such Plan Year. Excess Aggregate Contributions are allocated to the Highly Compensated Employees with the largest Contribution Percentage Amounts taken into account in calculating the ACP Test for the year in which the excess arose, beginning with the Highly Compensated Employee with the largest amount of such Contribution Percentage Amounts and continuing in descending order until all of the Excess Aggregate Contributions have been allocated. If a Highly Compensated Employee participates in two or more plans or arrangements of the Employer or of a Controlled

Group member that include Contribution Percentage Amounts, the amount distributed shall not exceed the Contribution Percentage Amounts taken into account in calculating the ACP Test and made to this Plan for the year in which the excess arose. If such Excess Aggregate Contributions are distributed more than 2 1/2 months after the last day of the Plan Year in which such excess amounts arose, a 10 percent excise tax shall be imposed on the employer maintaining the plan with respect to such amounts.

Excess Aggregate Contributions shall be treated as Annual Additions, as defined in Section 3.07, even if distributed.

The Excess Aggregate Contributions shall be adjusted for any income or loss. The income or loss allocable to such Excess Aggregate Contributions allocated to each Participant shall be equal to the income or loss allocable to the Participant's Contribution Percentage Amounts for the Plan Year in which the excess occurred multiplied by a fraction. The numerator of the fraction is the Excess Aggregate Contributions. The denominator of the fraction is the closing balance without regard to any income or loss occurring during such Plan Year (as of the end of such Plan Year) of the Participant's Account resulting from Contribution Percentage Amounts.

For purposes of determining income or loss on Excess Aggregate Contributions, no adjustment shall be made for income or loss for the gap period.

Excess Aggregate Contributions allocated to a Participant shall be distributed from the Participant's Account resulting from Participant Contributions that are not required as a condition of employment or participation or for obtaining additional benefits from Employer Contributions. If such Excess Aggregate Contributions exceed the balance in the Participant's Account resulting from such Participant Contributions, the balance shall be forfeited, if not vested, or distributed, if vested, on a pro rata basis from the Participant's Account resulting from Contribution Percentage Amounts.

## **Section 3.09--401(k) SAFE HARBOR PROVISIONS.**

(a) Rules of Application.

- (1) The provisions under Section 3.08 do not apply for any Plan Year in which the provisions of this section apply unless the Plan is amended to reduce or suspend the Qualified Matching Contributions during the Plan Year in accordance with the provisions of this section.
- (2) Short Plan Year Exceptions. The provisions of this section shall not apply unless the Plan Year is 12 months long except as provided below:
  - (i) In the case of the first Plan Year of a newly established plan (other than a successor plan), the Plan Year is at least 3 months long (or any shorter period if the Employer is a newly established employer that establishes the Plan as soon as administratively feasible after the Employer came into existence).
  - (ii) In the case of a cash or deferred arrangement (CODA) that is added to an existing profit sharing, stock bonus, or pre-ERISA money purchase pension plan for the first time during a plan year, provided the Plan is not a successor plan and the CODA is made effective no later than 3 months

prior to the end of the Plan Year. The Plan may not be an ACP Test Safe Harbor for such Plan Year unless the existing Plan did not provide for Matching Contributions and the amendment providing for Matching Contributions is made effective at the same time as the adoption of the CODA.

- (iii) If the Plan has a short Plan Year as a result of changing its Plan Year, provided that:
  - (A) the Plan satisfied the safe harbor requirements under section 1.401(k)-3 of the regulations and section 1.401 (m)-3 of the regulations for the immediately preceding Plan Year; and
  - (B) the Plan satisfies the safe harbor requirements under section 1.401(k)-3 of the regulations (determined without regard to paragraph (g) of that section) and the safe harbor requirements under section 1.401 (m)-3 of the regulations (determined without regard to paragraph (h) of that section) for the immediately following Plan Year (or the immediately following 12 months if the immediately following Plan Year is less than 12 months).
- (iv) If the Plan has a short Plan Year due to Plan termination, provided that the Plan satisfies the safe harbor requirements of section 1.401(k)-3 of the regulations and section 1.401 (m)-3 of the regulations through the date of termination and either:
  - (A) the Plan would satisfy the requirements of section 1.401(k)-3(g) of the regulations and section 1.401(m)-3(h) of the regulations treating the termination of the Plan as a reduction or suspension of safe harbor matching contributions, other than the requirement that Active Participants have a reasonable opportunity to change the amount of their cash or deferred elections; or
  - (B) the Plan termination is in connection with a transaction described in Code Section 410(b)(6)(C) or the Employer incurs a substantial business hardship comparable to a substantial business hardship described in Code Section 412(c).
- (v) If the Plan has a short Plan Year as a result of changing its Plan Year, provided that:
  - (A) the Plan satisfied the safe harbor requirements under section 1.401(k)-3 of the regulations for the immediately preceding Plan Year; and
  - (B) the Plan satisfies the safe harbor requirements under section 1.401(k)-3 of the regulations (determined without regard to paragraph (g) of that section) for the immediately following Plan Year (or the immediately following 12 months if the immediately following Plan Year is less than 12 months).
- (vi) If the Plan has a short Plan Year due to Plan termination, provided regulations through the date of termination and either:

- (A) the Plan would satisfy the requirements of section 1.401(k)-3(g) of the regulations treating the termination of the Plan as a reduction or suspension of safe harbor matching contributions, other than the requirement that Active Participants have a reasonable opportunity to change the amount of their cash or deferred elections; or
- (B) the Plan termination is in connection with a transaction described in Code Section 410(b)(6)(C) or the Employer incurs a substantial business hardship comparable to a substantial business hardship described in Code Section 412(c).

(3) To the extent that any other provision of the Plan is inconsistent with the provisions of this section, the provisions of this section shall govern.

(b) ADP Test Safe Harbor.

- (1) Contributions. The Plan is satisfying the ADP Test Safe Harbor using Qualified Matching Contributions as provided in Section 3.01(b). The Employer shall pay to the Insurer or Trustee, as applicable, such Contributions for each Plan Year not later than the end of the 12-month period immediately following the Plan Year for which they are deemed to be paid.
- (2) Notice Requirement. At least 30 days, but not more than 90 days, before the beginning of the Plan Year, the Employer shall provide each Active Participant a comprehensive notice of his rights and obligations under the Plan, including a description of the Qualified Matching Contributions that will be made to the Plan to satisfy the ADP Test Safe Harbor.

The notice shall be written in a manner calculated to be understood by the average Active Participant.

If an Employee becomes an Active Participant after the 90th day before the beginning of the Plan Year and does not receive this notice for that reason, the notice must be provided no more than 90 days before he becomes an Active Participant but not later than the date he becomes an Active Participant.

- (3) Election Periods. In addition to any other election periods provided under the Plan, each Active Participant may make or modify a deferral election during the 30-day period immediately following receipt of the notice described in (2) above.

(c) ACP Test Safe Harbor. Matching Contributions are limited as provided in Section 3.01(b).

(d) ACP Test. The Plan does not provide for Participant Contributions, as defined in Section 3.08. Any provisions relating to the ACP Test in Section 3.08 shall not apply for any Plan Year in which the provisions of this section apply unless the Plan is amended to reduce or suspend the Qualified Matching Contributions during the Plan Year in accordance with the provisions of this section.

(e) Reduction or Suspension of the 401(k) Safe Harbor Contribution. The Employer may amend the Plan to reduce or suspend the amount of the Qualified Matching Contributions during any Plan Year if the following conditions are met:

- (1) The Employer either

- (i) is operating at an economic loss as described in Code Section 412(c)(2)(A) for the Plan Year, or
  - (ii) includes in the notice described in (b)(2) above a statement that the Plan may be amended during the Plan Year to reduce or suspend the Qualified Matching Contributions and that the reduction or suspension will not apply until at least 30 days after all Active Participants are provided notice of the reduction or suspension.
- (2) All Active Participants shall be provided a supplemental notice that explains the consequences of the amendment, informs them of the effective date of the reduction or suspension of the Qualified Matching Contributions and explains the procedures to change their Elective Deferral Agreement.
  - (3) The effective date of the reduction or suspension of the Qualified Matching Contributions is no earlier than the later of (i) 30 days after the Active Participants are given such notice, and (ii) the date the amendment is adopted.
  - (4) Active Participants are given a reasonable opportunity (including a reasonable period after receipt of the supplemental notice) prior to the reduction or suspension of the Qualified Matching Contributions to change their Elective Deferral Agreement.

If the Qualified Matching Contributions are reduced or suspended, the Employer shall perform the ADP Test and ACP Test for the entire Plan Year in which the reduction or suspension occurred using the current year testing method described in Section 3.08 of this article, and, if applicable, satisfy the Top-heavy Plan requirements of Article XI. The Employer shall make the Qualified Matching Contributions with respect to Elective Deferral Contributions and Compensation for the portion of the Plan Year prior to the effective date of the reduction or suspension. The annual compensation limit applied to Compensation for purposes of such Contributions shall be adjusted for the short determination period as described in the definition of Compensation in Section 1.02.

- (f) (Top-heavy Rules. The Plan is deemed to not be a Top-heavy Plan, as defined in Section 11.02, for a Plan Year if the exception under Code Section 416(g)(4)(H) applies for such year.

## **ARTICLE IV**

### **INVESTMENT OF CONTRIBUTIONS**

#### **Section 4.01--INVESTMENT AND TIMING OF CONTRIBUTIONS.**

The handling of Contributions and Plan assets is governed by the provisions of the Trust Agreement and any other relevant document, such as an Annuity Contract (for the purposes of this paragraph alone, the Trust Agreement and such other documents will each be referred to as a "document" or collectively as the "documents"), duly entered into by or with regard to the Plan that govern such matters. To the extent permitted by the documents, the parties named below shall direct the Contributions



for investment in any of the investment options available to the Plan under or through the documents, and may request the transfer of amounts resulting from those Contributions between such investment options.

A Participant may not direct the investment of all or any portion of his Account in collectibles. Collectibles mean any work of art, rug or antique, metal or gem, stamp or coin, alcoholic beverage, or other tangible personal property specified by the Secretary of the Treasury. However, certain coins and bullion as provided in Code Section 408(m)(3) shall not be considered collectibles.

If a Participant has provided investment direction for all or certain specific Contributions made to his Account, such Contributions shall be invested in accordance with such direction to the extent possible. If an investment option selected by the Participant in that investment direction is no longer available (or is no longer available for future Contributions only) and a new investment option is not selected by the Participant (in lieu of the one that is no longer available) by the deadline set by a fiduciary of the Plan (or by the date the investment option is no longer available), all amounts currently held in the investment option that is no longer available and/or future Contributions directed to such investment option, as the case may be, by the Participant (and made after such deadline or date) shall be invested in the appropriate default investment option, unless otherwise directed by a fiduciary of the Plan.

To the extent that a Participant who has the ability to provide investment direction (either on an ongoing basis or in response to a notice from a fiduciary of the Plan) fails to give timely investment direction, the amount in the Participant's Account for which no investment direction is received shall be invested in the appropriate default investment option, unless otherwise directed by a fiduciary of the Plan.

If the Primary Employer has investment direction, the Contributions shall be invested in accordance with such direction. The Employer shall have investment direction for amounts that have not been allocated to Participants. To the extent an investment option is no longer available, a fiduciary of the Plan may require that amounts currently held in such investment option be reinvested in other investment options. To the extent that the Employer has not given investment direction, and no Plan fiduciary gives direction regarding the reinvestment of such amounts, the amounts held in an investment option that is no longer available or which had been directed to be invested in an investment option that is not available for future Contributions shall be invested in the appropriate default investment option.

Default investment options are defined in documents duly entered into by or with regard to the Plan that govern such matters.

At least annually, the Named Fiduciary shall review all pertinent Employee information and Plan data in order to establish the funding policy of the Plan and to determine appropriate methods of carrying out the Plan's objectives. The Named Fiduciary shall inform the Trustee and any Investment Manager of the Plan's short-term and long-term financial needs so the investment policy can be coordinated with the Plan's financial requirements.

The Participant shall direct the investment of all Contributions except Discretionary ESOP Contributions that the Primary Employer shall direct. The Participant shall direct the transfer of amounts resulting from all those Contributions.

However, the Named Fiduciary may delegate to the Investment Manager investment direction for Contributions and amounts that are not subject to Participant direction.

All Contributions are forwarded by the Employer to (i) the Trustee to be deposited in the Trust Fund or otherwise invested by the Trustee in accordance with the relevant documents; or (ii) the Insurer to be deposited under the Annuity Contract, as applicable.

## Section 4.02--INVESTMENT IN QUALIFYING EMPLOYER SECURITIES.

- (a) ESOP Designation. The portion of the Plan that consists of Participants' Accounts holding Qualified Employer Securities and the Unallocated Reserve is an employee stock ownership plan (within the meaning of Code Section 4975(3)(7)) and is designed to invest primarily in Qualified Employer Securities. All shares of Qualified Employer Securities held under the Plan will be held in the Trust Fund in the name of the Trustee or the nominee of the Trustee. The Employer may make contributions in the form of cash and/or Qualified Employer Securities.
- (b) Diversification. Each Participant is permitted to elect to direct any publicly traded qualifying employer securities (as defined in Code Section 401 (a)(35)(G)(v)) held in his Account under the Plan to be reinvested in other investment options offered under the Plan with respect to the portion of his Account that is subject to Code Section 401 (a)(35)(B) or (C). The plan sponsor may permit diversification of amounts invested in qualifying employer securities earlier than required as long as the earlier time period is applied consistently to all employees.

The Plan shall offer at least three investment options, other than Qualifying Employer Securities, to which the applicable individual may direct all or any portion of his Account invested in Qualifying Employer Securities, and each investment option must be diversified and have materially different risk and return characteristics that satisfy the requirements of section 2550.404c-1(b)(3) of the Department of Labor regulations. The Plan may limit the time for divestment and reinvestment to periodic, reasonable opportunities occurring no less frequently than quarterly. The Plan may not impose any restrictions or conditions with respect to the investment of Qualifying Employer Securities that are not imposed on the investment options offered under the Plan.

- (c) Valuation of Qualifying Employer Securities. For purposes of determining the annual valuation of the Plan, and for reporting to Participants and regulatory authorities, the assets of the Plan shall be valued at least annually on the Valuation Date which corresponds to the last day of the Plan Year. The fair market value of Qualifying Employer Securities shall be determined on such Valuation Date. The prices of Qualifying Employer Securities as of the date of the transaction shall apply for purposes of valuing distributions and other transactions of the Plan to the extent such value is representative of the fair market value of such securities in the opinion of the Plan Administrator. The value of a Participant's Account held in the Qualifying Employer Securities Fund may be expressed in shares of Qualifying Employer Securities.

If the Qualifying Employer Securities are not readily tradable (per IRS Notice 2011-19), or if an extremely thin market exists for such securities so that reasonable valuation may not be obtained from the market place, then such securities must be valued at least annually by an independent appraiser who is not associated with the Employer, the Plan Administrator, the Trustee, or any person related to any fiduciary under the Plan. The independent appraiser may be associated with a person who is merely a contract administrator with respect to the Plan, but who exercises no discretionary authority and is not a plan fiduciary.

If there is a public market for Qualifying Employer Securities of the type held by the Plan, then the Plan Administrator may use as the value of the securities the price at which such securities trade in such market. If the Qualifying Employer Securities do not trade on the relevant date, or if the market is very thin on such date, then the Plan Administrator may use for the valuation the next preceding trading day on which the trading prices are

representative of the fair market value of such securities in the opinion of the Plan Administrator.

- (d) Purchases or Sales of Qualifying Employer Securities. The Plan Administrator may direct the Trustee to sell, resell, or otherwise dispose of Qualifying Employer Securities to any person, including the Employer, provided that any such sales to any disqualified person or party-in-interest, including the Employer, will be made at not less than the fair market value and no commission will be charged. Any such sale shall be made in conformance with ERISA Section 408(e). If it is necessary to purchase Qualifying Employer Securities for the Trust Fund, such purchase may be on the open market or from the Employer or any member of the Controlled

Group. All purchases of Qualifying Employer Securities shall be made at a price, or prices, which, in the judgment of the Plan Administrator, do not exceed the fair market value of such securities. If shares are purchased from or sold to the Employer or a member of the Controlled Group, the purchase or sale will be made at the price determined under paragraph (c) above.

In the event that the Trustee acquires Qualifying Employer Securities by purchase from a "disqualified person" as defined in Code Section 4975(e)(2) or from a "party-in-interest" as defined in ERISA Section 3(14), the terms of such purchase shall contain the provision that in the event there is a final determination by the Internal Revenue Service, the Department of Labor, or court of competent jurisdiction that the fair market value of such securities as of the date of purchase was less than the purchase price paid by the Trustee, then the seller shall pay or transfer, as the case may be, to the Trustee an amount of cash or shares of Qualifying Employer Securities equal in value to the difference between the purchase price and such fair market value for all such shares. In the event that cash or shares of Qualifying Employer Securities are paid or transferred to the Trustee under this provision, such securities shall be valued at their fair market value as of the date of such purchase, and interest at a reasonable rate from the date of purchase to the date of payment or transfer shall be paid by the seller on the amount of cash paid.

- (e) Compliance with Securities Laws. The Employer is responsible for compliance with any applicable Federal or state securities law with respect to all aspects of the Plan except for the Trustee's obligation to report its ownership of Qualifying Employer Securities. If the Qualifying Employer Securities or interest in this Plan are required to be registered in order to permit investment in the Qualifying Employer Securities Fund as provided in this section, then such investment will not be effective until the later of the effective date of the Plan or the date such registration or qualification is effective. The Employer, at its own expense, will take or cause to be taken any and all such actions as may be necessary or appropriate to effect such registration or qualification. Further, if the Trustee is directed to dispose of any Qualifying Employer Securities held under the Plan under circumstances which require registration or qualification of the securities under applicable Federal or state securities laws, then the Employer will, at its own expense, take or cause to be taken any and all such action as may be necessary or appropriate to effect such registration or qualification. The Employer is responsible for all compliance requirements under Section 16 of the Securities Act.
- (f) Dividends. For purposes of determining dividends, shares of Qualified Employer Securities shall be deemed to be credited to the Account of a Participant, Beneficiary or Alternate Payee as of the record date of a dividend if they are credited to his Account as of the close of the day prior to the ex-date of such dividend (or, if the ex-date is after the record date, as of the close of the day prior to the record date).

Dividends paid on Qualifying Employer Securities shall be 100% vested when made.

- (1) Stock Dividend. In the event of any stock dividend or any stock split, such dividend or split shall be credited to the Accounts based on the number of shares of Qualified Employer Securities credited to each Account as of the record date of such dividend or split.
- (2) Cash Dividend. As determined by the Employer, cash dividends paid on shares of Qualified Employer Securities credited to an Account of a Participant, Beneficiary or Alternate Payee as of the record date of such dividend will be either (i) paid in cash directly to Participants, (ii) paid to the Plan and distributed to Participants within 90 days after the end of the Plan Year in which such dividend was paid to the Plan, (iii) applied to repay an Exempt Loan then outstanding (but only if such Qualifying Employer Security is attributable to such Exempt Loan); (iv) made subject to the election procedure described in paragraph (3) below; or (v) retained in the Trust and treated as net income of the Trust. The Employer shall not direct that dividends paid on shares of Qualified Employer Securities held in the Participants' Accounts be applied to repay an Exempt Loan, unless the shares of Qualified Employer Securities released from the Unallocated Reserve will have a value at least sufficient to allow for the full allocation required in step one under the allocation of Discretionary Contributions provisions of Section 3.05 (the Employer may make Discretionary Contributions necessary to allow for such full allocation).

In addition, dividends attributable to Qualified Employer Securities held in the Unallocated Reserve (as a result of an Exempt Loan) shall be allocated to Participants' Accounts as earnings of the Trust available to repay an Exempt Loan to the extent allowed by ERISA. Such earnings shall be allocated in proportion to the shares of Qualified Employer Securities held in a Participant's Account as of the record date of the dividend.

- (3) Cash Dividend Election. If the Employer elects, cash dividends paid on shares of Qualified Employer Securities credited to an Account of a Participant, Beneficiary or Alternate Payee as of the record date of such dividend will be:
  - (A) Paid to the Participant, Beneficiary or Alternate Payee if so elected under the procedure outlined below; or
  - (B) Otherwise, added to the balance of his Account as soon as administratively practicable after such dividends are paid into the Trust Fund.

A Participant, Beneficiary or Alternate Payee may elect to have cash dividends on shares of Qualified Employer Securities credited to his Account either paid to him in cash or added to the balance of his Account and reinvested in Qualified Employer Securities. Cash dividends that the Participant, Beneficiary or Alternate Payee elects to receive in cash will be paid on or as soon as administratively practicable following the record date of such dividend. Cash dividends that the Participant, Beneficiary or Alternate Payee elects to have reinvested in Qualified Employer Securities will be credited to a separate source account that reflects only such cash dividends, and shall be reinvested in additional shares of Qualified Employer Securities on or as soon as administratively practicable following the record date of such dividend, which may be after the end of the Plan Year once Qualified Employer Securities can be valued for acquisition purposes.

Shares in Qualified Employer Securities shall be deemed to be credited to the Account of a Participant, Beneficiary or Alternate Payee as of the record date of a dividend if they are credited to his Account as of the close of the day prior to the ex-date of such dividend (or, if the ex-date is after the record date, as of the close of the day prior to the record date).

An election hereunder must be made in such manner and in accordance with such rules as may be prescribed for this purpose by the Plan Administrator (including by means of a voice response or other electronic system under circumstances so authorized by the Plan Administrator). In the absence of an affirmative election received by the deadline established for this purpose by the Plan Administrator (which shall be no less than thirty (30) days after notice of the dividend election is provided), a Participant, Beneficiary or Alternate Payee will be deemed to have elected to have cash dividends added to his Account and reinvested in Qualified Employer Securities. To the extent so prescribed by the Plan Administrator, an election hereunder will be "evergreen" - that is, it will continue to apply until changed by the Participant, Beneficiary or Alternate Payee. Under the rules prescribed by the Plan Administrator, a Participant, Beneficiary or Alternate Payee shall be allowed to revise his election no less than once a year, and if there is a change in the terms of the Plan governing the manner in which dividends are paid or distributed, a Participant, Beneficiary or Alternate Payee shall be allowed a reasonable opportunity to make a new election.

The Account of a Participant, Beneficiary or Alternate Payee may be charged with the distribution costs (for example, the actual check-writing fee) of any distribution made at his election under this Section.

- (g) Authorization for Exempt Loan. The Employer may direct that the Plan engage in an Exempt Loan that satisfies the following requirements:
- (1) Lender. The Exempt Loan may be made by the Employer or any lender acceptable to the Employer, and may be made or guaranteed by a party in interest (as defined in ERISA Section 3(14)) or a disqualified person (as defined in Code Section 4975).
  - (2) Primary Benefit Requirement.
    - (i) The Exempt Loan must be primarily for the benefit of the Participants and their beneficiaries.
    - (ii) At the time that the Exempt Loan is made, the interest rate for the loan and the price of the Qualifying Employer Securities to be acquired should not be such that the assets of the Plan might be drained off.
    - (iii) The terms of the Exempt Loan, whether or not between independent parties must, at the same time the Exempt Loan is made, be at least as favorable to the Plan as the terms of a comparable loan resulting from arm's-length negotiations between independent parties.
  - (3) Terms of the Exempt Loan. The Exempt Loan must provide for principal and interest to be paid over a specific term, and not payable upon demand except in the event of default.

- (4) Use of Loan Proceeds. The Exempt Loan must be used within a reasonable time after receipt to (i) acquire shares of Qualifying Employer Securities, (ii) repay such loan, or (iii) repay a prior Exempt Loan (or for any combination of the foregoing purposes).
- (5) Nonterminable Protections and Rights. No Qualifying Employer Securities acquired with the proceeds of an Exempt Loan may be subject to a put, call, or other option, or buy-sell or similar arrangement while held by and when distributed from the Plan, whether or not the plan is then an ESOP, except as allowed in sections 54.4975-7(b)(10), (11), and (12) of the regulations. Such protections and rights are nonterminable and must continue to exist under the terms of the Plan, regardless of whether or not the Exempt Loan is repaid.
- (6) Liability and Collateral. The Exempt Loan must be without recourse against the Plan. The only assets of the Plan that may be given as collateral on an Exempt Loan are Qualifying Employer Securities that were acquired with the proceeds of the Exempt Loan or that were used as collateral on a prior Exempt Loan repaid with the proceeds of the current Exempt Loan. No person entitled to payment under the Exempt Loan shall have any rights to assets of the Plan other than for (i) collateral given for the loan, (ii) contributions (other than Contributions made in Qualifying Employer Securities) that are made under the Plan to meet its obligations under the loan, and (iii) earnings attributable to such collateral and the investment of such contributions.
- (7) Default. The Exempt Loan must provide that, in the event of default, the fair market value of Qualifying Employer Securities and other assets which can be transferred in satisfaction of the loan must not exceed the amount of the default. If the lender is a party in interest or disqualified person, the loan must provide for a transfer of Plan assets upon default only upon and to the extent of the failure of the Plan to satisfy the payment schedule of the Exempt Loan.
- (8) No Recourse Against Trust Fund. The Exempt Loan must be without recourse against the Plan except that:
  - (i) The Qualifying Employer Securities acquired with the proceeds of the Exempt Loan may be pledged or otherwise used to secure repayment of the Exempt Loan, and the Qualifying Employer Securities acquired with the proceeds of a prior Exempt Loan which is repaid with the proceeds of the Exempt Loan may be pledged or otherwise used to secure repayment of the Exempt Loan, and
  - (ii) Any Discretionary Contributions that are made for the purpose of satisfying the obligations under the Exempt Loan (and earnings thereon) may be pledged or otherwise used to secure repayment of the Exempt Loan, and
  - (iii) The earnings attributable to shares of Qualifying Employer Securities acquired with the proceeds of an Exempt Loan may be used to repay that Exempt Loan or any renewal or extension thereof, and
  - (iv) The earnings attributable to unallocated shares of Qualifying Employer Securities that were acquired with the proceeds of an Exempt Loan may be pledged or otherwise used as security for another Exempt Loan.

(v) The payments made with respect to an Exempt Loan by the Trust Fund during a Plan Year will not exceed an amount equal to the sum of such contributions and earnings received during or prior to the year less such payments in prior years. Such contributions and earnings will be accounted for separately until the loan is repaid.

(9) Release of Shares from Unallocated Reserve. The number of shares released each Plan Year shall equal "A" multiplied by "B" where:

"A" = the number of shares held in the Unallocated Reserve immediately before the release;

"B" = a fraction, the numerator of which is equal to the principal and interest paid on the Exempt Loan for the Plan Year and the denominator of which is equal to the sum of the numerator and the total principal and interest scheduled to be paid on the Exempt Loan for all future Plan Years (without consideration of possible extensions or renewal periods).

If the interest rate under the Exempt Loan is variable, the amount of interest to be paid in future Plan Years shall be calculated by using the interest rate in effect on the last day of the current Plan Year.

Alternatively, "B" may be calculated as a fraction, the numerator of which is equal to the principal paid on the Exempt Loan for the Plan Year and the denominator of which is equal to the sum of the numerator and the total principal scheduled to be paid on the Exempt Loan for all future Plan Years (without consideration of possible extensions or renewal periods). This alternative may only be used if the following conditions are met, (i) the loan must provide for annual payments of principal and interest at a cumulative rate that is not less rapid at any time than level annual payments of such amounts for 10 years, (ii) interest included in any payment is disregarded only to the extent that it would be determined to be interest under standard loan amortization tables, and (iii) this alternative is not applicable from the time that, by reason of a renewal, extension, or refinancing, the sum of the expired duration of the exempt loan, the renewal period, the extension period, and the duration of the new exempt loan exceeds 10 years.

If an Exempt Loan is repaid as a result of a refinancing by another Exempt Loan, such repayment shall not be considered a repayment under this subsection and the release of shares thereafter shall be determined by aggregating principal and interest on the loan and any refinancing of the loan.

(10) Interest Rate. The Exempt Loan must bear interest at a fixed or variable rate that is not in excess of a reasonable rate of interest considering all relevant factors (including, but not limited to, the amount and duration of the loan, the security given, the guarantees involved, the credit standing of the Plan, the Employer, and the guarantors, and the generally prevailing rates of interest).

(11) Restrictions. Unless required under Code Section 409(h), no options, puts, call, rights of first refusal or other restrictions on alienability will attach to any shares of Qualifying Employer Securities acquired with the proceeds of an Exempt Loan and held in the Trust Fund or distributed from the Plan, whether or not this Plan continues to be an employee stock ownership plan with the meaning of Code Section 4975(e)(7).

- (h) Voting and Tender Rights. Voting rights with respect to Qualifying Employer Securities will be passed through to Participants. Participants will be allowed to direct the voting rights of Qualifying Employer Securities for any matter put to the vote of shareholders. Before each meeting of shareholders, the Employer shall cause to be sent to each person with power to control such voting rights a copy of any notice and any other information provided to shareholders and, if applicable, a form for instructing the Trustee how to vote at such meeting (or any adjournment thereof) the number of full and fractional shares subject to such person's voting control. The Trustee may establish a deadline in advance of the meeting by which such forms must be received in order to be effective.

Each Participant shall be entitled to one vote for each share credited to his Account.

If some or all of the Participants have not directed or have not timely directed the Trustee on how to vote, then the Trustee shall vote such Qualifying Employer Securities in the same proportion as those shares of Qualifying Employer Securities for which the Trustee has received proper direction for such matter.

Tender rights or exchange offers for Qualifying Employer Securities will be passed through to Participants. As soon as practicable after the commencement of a tender or exchange offer for Qualifying Employer Securities, the Employer shall cause each person with power to control the response to such tender or exchange offer to be advised in writing the terms of the offer and, if applicable, to be provided with a form for instructing the Trustee, or for revoking such instruction, to tender or exchange shares of Qualifying Employer Securities, to the extent permitted under the terms of such offer. In advising such persons of the terms of the offer, the Employer may include statements from the board of directors setting forth its position with respect to the offer.

If some or all of the Participants have not directed or have not timely directed the Trustee on how to tender, then the Trustee shall tender such Qualifying Employer Securities in the same proportion as those shares of Qualifying Employer Securities for which the Trustee has received proper direction for such matter.

If the tender or exchange offer is limited so that all of the shares that the Trustee has been directed to tender or exchange cannot be sold or exchanged, the shares that each Participant directed to be tendered or exchanged shall be deemed to have been sold or exchanged in the same ratio that the number of shares actually sold or exchanged bears to the total number of shares that the Trustee was directed to tender or exchange.

The Trustee shall hold the Participant's individual directions with respect to voting rights or tender decisions in confidence and, except as required by law, shall not divulge or release such individual directions to anyone associated with the Employer. The Employer may require verification of the Trustee's compliance with the directions received from Participants by any independent auditor selected by the Employer, provided that such auditor agrees to maintain the confidentiality of such individual directions.

The Employer may develop procedures to facilitate the exercise of votes or tender rights, such as the use of facsimile transmissions for the Participants located in physically remote areas.

- (i) Confidentiality Procedures Regarding Qualifying Employer Securities. The following shall apply with respect to the investment by Participants, Beneficiaries and Alternate Payees in Qualifying Employer Securities:



- (1) Information relating to the purchase, holding, and sale of Qualifying Employer Securities, and the exercise of voting, tender and similar rights with respect to Qualifying Employer Securities by Participants, Beneficiaries and Alternate Payees, shall be maintained in accordance with procedures designed to safeguard the confidentiality of such information and shall not be disclosed except as otherwise provided under paragraph (h) or to the extent necessary to comply with Federal laws or state laws not preempted by ERISA.
- (2) The Employer or its designee shall be the Named Fiduciary responsible for (i) establishing and ensuring that the confidentiality procedures are sufficient to safeguard the information described in subparagraph (1) above, (ii) such procedures are being followed, and (iii) appointing when necessary an independent Fiduciary to carry out activities relating to situations that the Named Fiduciary determines involve a potential for undue Employer influence on Participants, Beneficiaries and Alternate Payees with regard to the direct or indirect exercise of shareholder rights.

## **ARTICLE V**

### **BENEFITS**

#### **Section 5.01--RETIREMENT BENEFITS.**

On a Participant's Retirement Date, his Vested Account shall be distributed to him according to the distribution of benefits provisions of Article VI and the provisions of Section 10.11.

#### **Section 5.02--DEATH BENEFITS.**

If a Participant dies before his Annuity Starting Date, his Vested Account shall be distributed according to the distribution of benefits provisions of Article VI and the provisions of Section 10.11.

#### **Section 5.03--VESTED BENEFITS.**

If an Inactive Participant's Vested Account is not payable under Section 10.11, he may elect, but is not required, to receive a distribution of any part of his Vested Account after he has a Severance from Employment. A distribution under this paragraph shall be a retirement benefit and shall be distributed to the Participant according to the distribution of benefits provisions of Article VI.

A Participant may not elect to receive a distribution under the provisions of this section after he again becomes an Employee until he subsequently has a Severance from Employment and meets the requirements of this section.

A Participant who has been performing Qualified Military Service for a period of more than 30 days is deemed to have had a severance from employment (as described in Code Section 414(u)(12)(B)(i)) for purposes of requesting a distribution of his Vested Account resulting from Elective

Deferral Contributions. The Plan will suspend Elective Deferral Contributions for six months after receipt of the distribution.

If an Inactive Participant does not receive an earlier distribution, upon his Retirement Date or death, his Vested Account shall be distributed according to Section 5.01 or Section 5.02, as applicable.

The Nonvested Account of an Inactive Participant who has had a Severance from Employment shall remain a part of his Account until it becomes a Forfeiture. However, if he again becomes an Employee so that his Vesting Percentage can increase, the Nonvested Account may become a part of his Vested Account.

#### **Section 5.04--WHEN BENEFITS START.**

- (a) Unless otherwise elected by the Participant, benefits shall begin no later than the 60th day following the close of the Plan Year in which the latest date below occurs:
- (1) The date the Participant attains age 65 (or Normal Retirement Age, if earlier).
  - (2) The 10th anniversary of the Participant's Entry Date.
  - (3) The date the Participant terminates service with the Employer.

Notwithstanding the foregoing, the failure of a Participant to consent to a distribution while a benefit is immediately distributable, within the meaning of Section 6.03, shall be deemed to be an election to defer the start of benefits sufficient to satisfy this section.

Any provision herein to the contrary notwithstanding, no distributions shall be made under this Plan until after the prescribed distribution application is completed and filed with the Plan Administrator, unless such distribution is payable under Section 10.11. The Participant shall not elect a date for beginning benefits or a form of distribution that would result in a benefit payable when he dies which would be more than incidental within the meaning of governmental regulations.

Benefits shall begin on an earlier date if otherwise provided in the Plan (e.g., the Participant's Retirement Date or Required Beginning Date, as defined in Section 1.02).

- (b) The Participant's Vested Account resulting from Elective Deferral Contributions, Qualified Matching Contributions or Qualified Nonelective Contributions may not be distributed earlier than Severance from Employment, death, or disability. However, such amount may be distributed upon:
- (1) Termination of the Plan, as permitted in Article VIII.
  - (2) The attainment of age 59 1/2 as permitted in Section 5.05.
  - (3) The attainment of Normal Retirement Age, provided such age is at least age 59 1/2 and such distribution is permitted in the definition of Normal Retirement Date under Section 1.02.
  - (4) A federally declared disaster, where resulting legislation authorizes such a distribution.

The Participant's Vested Account resulting from Elective Deferral Contributions may also be distributed:

- (5) As a hardship withdrawal, as permitted in Section 5.05.
- (6) Upon a Participant's deemed severance from employment as described in Code Section 414(u)(12)(B)(i) and as permitted in Section 5.03.

All distributions that may be made pursuant to one or more of the foregoing Participant according to the distribution of benefits provisions of Article VI. In addition, distributions that are triggered by the termination of the Plan must be made in a lump sum. A lump sum shall include a distribution of an Annuity Contract, if any, under the Plan.

## **Section 5.05--IN-SERVICE WITHDRAWALS.**

A request for withdrawal shall be made in such manner and in accordance with such rules as the Employer shall prescribe for this purpose (including by means of voice response or other electronic means under circumstances the Employer permits). Withdrawals shall be a retirement benefit and shall be distributed to the Participant according to the distribution of benefits provisions of Article VI. A forfeiture shall not occur solely as a result of a withdrawal.

Withdrawal of Rollover Contributions. A Participant may withdraw any part of his Vested Account resulting from Rollover Contributions. A Participant may make such a withdrawal at any time.

Withdrawal After Age 59 1/2. A Participant who has attained age 59 1/2 may withdraw any part of his Vested Account resulting from Elective Deferral Contributions, Matching Contributions, Qualified Nonelective Contributions, Discretionary Contributions or ESOP Discretionary Contributions

A Participant may make only one such withdrawal such withdrawals in any 12-month period.

Financial Hardship Withdrawal. A Participant may withdraw any part of his Vested Account resulting from:

Elective Deferral Contributions in the event of hardship due to an immediate and heavy financial need. Withdrawals from the Participant's Account resulting from Elective Deferral Contributions shall be limited to the amount of the Participant's Elective Deferral Contributions and, for hardship withdrawals made on or after January 1, 2019, earnings thereon.

Immediate and heavy financial need shall be limited to:

- (i) expenses incurred or necessary for medical care that would be deductible under Code Section 213(a) (determined without regard to whether the expenses exceed the stated limit on adjusted gross income);
- (ii) the purchase (excluding mortgage payments) of a principal residence for the Participant;
- (iii) payment of tuition, related educational fees, and room and board expenses, for up to the next 12 months of post-secondary education for the Participant, his spouse, children, or dependents (as defined in Code Section 152 without regard to Code Sections 152(b)(1), (b)(2), and (d)(1)(B));
- (iv) payments necessary to prevent the eviction of the Participant from, or foreclosure on the mortgage of, the Participant's principal residence;

- (v) payments for funeral or burial expenses for the Participant's deceased parent, spouse, child, or dependent (as defined in Code Section 152 without regard to Code Section 152(d)(1)(B));
- (vi) expenses to repair damage to the Participant's principal residence that would qualify for a casualty loss deduction under Code Section 165 (determined without regard to Code Section 165(h)(5) and whether the loss exceeds 10% of adjusted gross income);
- (vii) Expenses and losses (including loss of income) incurred by the Participant on account of a disaster declared by the Federal Emergency Management Agency (FEMA) under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, provided that the Participant's principal residence or principal place of employment at the time of the disaster was located in an area designated by FEMA for individual assistance with respect to the disaster; or
- (viii) any other distribution which is deemed by the Commissioner of Internal Revenue to be made on account of immediate and heavy financial need as provided in Treasury regulations.

A distribution will be considered to be necessary to satisfy an immediate and heavy financial need of the Participant only if:

- (i) The withdrawal does not exceed the amount necessary to satisfy the Participant's immediate and heavy financial need described in the preceding paragraph (a) of this section (including amounts necessary to pay any federal, state or local income taxes and penalties anticipated as a result of the distribution); and
- (ii) The Participant has obtained all distributions, other than hardship distributions, and all nontaxable loans currently available under all plans maintained by the Employer (the requirement to obtain all available nontaxable loans shall not apply to hardship distributions made on or after January 1, 2019);
- (iii) The Participant represents (in writing, by an electronic medium (including via a recorded telephone call), or in such other form as may be prescribed by the Plan Administrator) that he or she has insufficient cash or other liquid assets to satisfy the need. The Plan Administrator may rely on the Participant's representation unless the Plan Administrator has actual knowledge to the contrary.

A Participant who takes a hardship distribution will be suspended from making elective deferrals to any 401(k) plan maintained by the Employer or Controlled Group member for six months following receipt of the hardship distribution. A Participant shall not cease to be an Eligible Participant as defined in Section 3.08 merely because his elective contributions or participant contributions are suspended. This paragraph does not apply to hardship distributions made on or after January 1, 2019.

## **Section 5.06--LOANS TO PARTICIPANTS.**

Loans shall be made available to all Participants on a reasonably equivalent basis. For purposes of this section, and unless otherwise specified, Participant means any Participant or Beneficiary who is a party-in-interest as defined in ERISA. Loans shall not be made to Highly Compensated Employees in an amount greater than the amount made available to other Participants.

A loan to a Participant shall be a Participant-directed investment of his Account. The loan is a Trust Fund investment but no Account other than the borrowing Participant's Account shall share in the interest paid on the loan or bear any expense or loss incurred because of the loan.

The number of outstanding loans shall be limited to one.

No more than two (2) loans shall be approved for any Participant in any 12-month period.

The minimum amount of any loan shall be \$1,000.

Loans must be adequately secured and bear a reasonable rate of interest.

The amount of the loan shall not exceed the maximum amount that may be treated as a loan under Code Section 72(p) (rather than a distribution) to the Participant and shall be equal to the lesser of (a) or (b) below:

- (a) \$50,000, reduced by the highest outstanding loan balance of loans during the one-year period ending on the day before the new loan is made.
- (b) The greater of (1) or (2), reduced by (3) below:
  - (1) One-half of the Participant's Vested Account (without regard to any accumulated deductible employee contributions, as defined in Code Section 72(o)(5)(B)).
  - (2) \$10,000.
  - (3) Any outstanding loan balance on the date the new loan is made.

For purposes of this maximum, all qualified employer plans, as defined in Code Section 72(p)(4), of the Employer and any Controlled Group member shall be treated as one plan.

The foregoing notwithstanding, the amount of such loan shall not exceed 50 percent of the amount of the Participant's Vested Account. For purposes of this maximum, a Participant's Vested Account does not include any accumulated deductible employee contributions, as defined in Code Section 72(o)(5)(B). No collateral other than a portion of the Participant's Vested Account (as limited above) shall be accepted.

The Participant's outstanding loan balance shall include any deemed distribution, along with accrued interest, that has not been repaid or offset.

Each loan shall bear a reasonable fixed rate of interest to be determined by the Loan Administrator. In determining the interest rate, the Loan Administrator shall take into consideration fixed interest rates currently being charged by commercial lenders for loans of comparable risk on similar terms and for similar durations, so that the interest will provide for a return commensurate with rates currently charged by commercial lenders for loans made under similar circumstances. The Loan Administrator shall not discriminate among Participants in the matter of interest rates; but loans granted at different times may bear different interest rates in accordance with the current appropriate standards.

The loan shall by its terms require that repayment (principal and interest) be amortized in level payments, not less frequently than quarterly, over a period not extending beyond five (5) years from the date of the loan.

The Participant shall make an application for a loan in such manner and in accordance with such rules as the Employer shall prescribe for this purpose (including by means of voice response or other

electronic means under circumstances the Employer permits). The application must specify the amount and duration requested.

Each loan shall be fully documented in the form of a promissory note signed by the Participant for the face amount of the loan, together with interest determined as specified above.

There will be an assignment of collateral to the Plan executed at the time the loan is made.

In those cases where repayment through payroll deduction is available, installments are so payable, and a payroll deduction agreement shall be executed by the Participant at the time the loan is made. If the Participant has previously been treated as having received a deemed distribution and the subsequent loan is being made before the deemed distribution, along with accrued interest, has been repaid or offset, a payroll deduction agreement shall be required. If a payroll deduction agreement is required because of a previous deemed distribution and the Participant later revokes such agreement, the outstanding loan balance at the time of the revocation shall be treated as a deemed distribution.

Where payroll deduction is not available, payments in cash are to be timely made. Any payment that is not by payroll deduction shall be made payable to the Employer or the Trustee, as specified in the promissory note, and delivered to the Loan Administrator, including prepayments, service fees and penalties, if any, and other amounts due under the note.

The promissory note may provide for reasonable late payment penalties and service fees. Any penalties or service fees shall be applied to all Participants in a nondiscriminatory manner. Such amounts may be assessed and collected from the Account of the Participant as part of the loan balance.

Each loan may be paid prior to maturity, in part or in full, without penalty or service fee, except as may be set out in the promissory note.

The Plan may suspend loan payments for a period not exceeding one year during which an approved unpaid leave of absence occurs other than a military leave of absence. The Loan Administrator shall provide the Participant a written explanation of the effect of the suspension of payments upon his loan.

If a Participant separates from service (or takes a leave of absence) from the Employer because of service in the military and does not receive a distribution of his Vested Account, the Plan may suspend loan payments until the Participant's completion of military service or until the Participant's fifth anniversary of commencement of military service, if earlier, as permitted under Code Section 414(u). The Loan Administrator shall provide the Participant a written explanation of the effect of his military service upon his loan.

If any payment of principal and interest, or any portion thereof, remains unpaid as of the end of the calendar quarter following the calendar quarter during which a loan payment is missed (or such other longer period as may be prescribed in applicable Treasury Regulations), the loan shall be in default. For purposes of Code Section 72(p), the Participant shall then be treated as having received a deemed distribution regardless of whether or not a distributable event has occurred.

Upon default, the Plan has the right to pursue any remedy available by law to satisfy the amount due, along with accrued interest, including the right to enforce its claim against the security pledged and execute upon the collateral as allowed by law. The entire principal balance whether or not otherwise then due, along with accrued interest, shall become immediately due and payable without demand or notice, and subject to collection or satisfaction by any lawful means, including specifically, but not limited to, the right to enforce the claim against the security pledged and to execute upon the collateral as allowed by law.

In the event of default, foreclosure on the note and attachment of security or use of amounts pledged to satisfy the amount then due shall not occur until a distributable event occurs in accordance with the Plan, and shall not occur to an extent greater than the amount then available upon any distributable event which has occurred under the Plan.

All reasonable costs and expenses, including but not limited to attorney's fees, incurred by the Plan in connection with any default or in any proceeding to enforce any provision of a promissory note or instrument by which a promissory note for a Participant loan is secured, shall be assessed and collected from the Account of the Participant as part of the loan balance.

If payroll deduction is being utilized, in the event that a Participant's available payroll deduction amounts in any given month are insufficient to satisfy the total amount due, there will be an increase in the amount taken subsequently, sufficient to make up the amount that is then due. If any amount remains past due more than 90 days, the entire principal amount, whether or not otherwise then due, along with interest then accrued, shall become due and payable, as indicated above.

If no distributable event has occurred under the Plan at the time that the Participant's Vested Account would otherwise be used under this provision to pay any amount due under the outstanding loan, this will not occur until the time, or in excess of the extent to which, a distributable event occurs under the Plan. An outstanding loan will become due and payable in full 60 days after a Participant has a Severance from Employment and ceases to be a party-in-interest as defined in ERISA or after complete termination of the Plan. An outstanding loan shall not be due and payable to the extent a Participant impacted by a business event: (i) elects a Direct Rollover of an Eligible Rollover Distribution that includes the loan note; (ii) the Direct Rollover is paid to another qualified plan; and (iii) the rollover of the loan note is made in accordance with nondiscriminatory procedures set up by the Loan Administrator. For this purpose, a business event means an acquisition, merger, or similar transaction involving a change in the employer of the employees of a trade or business.

## **Section 5.07--DISTRIBUTIONS UNDER QUALIFIED DOMESTIC RELATIONS ORDERS.**

The Plan specifically permits distributions to an Alternate Payee under a qualified domestic relations order as defined in Code Section 414(p), at any time, irrespective of whether the Participant has attained his earliest retirement age, as defined in Code Section 414(p), under the Plan. A distribution to an Alternate Payee before the Participant has attained his earliest retirement age is available only if the order specifies that distribution shall be made prior to the earliest retirement age or allows the Alternate Payee to elect a distribution prior to the earliest retirement age.

Nothing in this section shall permit a Participant to receive a distribution at a time otherwise not permitted under the Plan nor shall it permit the Alternate Payee to receive a form of payment not permitted under the Plan.

The benefit payable to an Alternate Payee shall be subject to the provisions of Section 10.11, as they apply to the Participant.

The Plan Administrator shall establish reasonable procedures to determine the qualified status of a domestic relations order. Upon receiving a domestic relations order, the Plan Administrator shall promptly notify the Participant and each Alternate Payee named in the order, in writing, of the receipt of the order and the Plan's procedures for determining the qualified status of the order. Within a reasonable period of time after receiving the domestic relations order, the Plan Administrator shall determine the qualified status of the order and shall notify the Participant and each Alternate Payee, in writing, of its determination. The Plan Administrator shall provide notice under this paragraph by mailing to the

individual's address specified in the domestic relations order, or in a manner consistent with Department of Labor regulations.

If any portion of the Participant's Vested Account is payable during the period the Plan Administrator is making its determination of the qualified status of the domestic relations order, a separate accounting shall be made of the amount payable. If the Plan Administrator determines the order is a qualified domestic relations order within 18 months of the date amounts are first payable following receipt of the order, the payable amounts shall be distributed in accordance with the order. If the Plan Administrator does not make its determination of the qualified status of the order within the 18-month determination period, the payable amounts shall be distributed in the manner the Plan would distribute if the order did not exist and the order shall apply prospectively if the Plan Administrator later determines the order is a qualified domestic relations order.

The Plan shall make payments or distributions required under this section by separate benefit checks or other separate distribution to the Alternate Payee(s).

## ARTICLE VI

### DISTRIBUTION OF BENEFITS

#### Section 6.01--AUTOMATIC FORMS OF DISTRIBUTION.

Unless an optional form of benefit is selected pursuant to a qualified election within the election period (see Section 6.03), the automatic form of benefit payable to or on behalf of a Participant is determined as follows:

- (a) Retirement Benefits. The automatic form of retirement benefit for a Participant who does not die before his Annuity Starting Date shall be a single sum payment. However, for any portion of a Participant's Account that is held in the Qualifying Employer Securities Fund, the automatic form of retirement benefit shall be a distribution in kind.
- (b) Death Benefits. The automatic form of death benefit for a Participant who dies before his Annuity Starting Date shall be a single sum payment to the Participant's Beneficiary.
- (c) Qualifying Employer Securities. That portion of a Participant's Account held in the Qualifying Employer Securities Fund shall be distributed as a single sum payment.

#### Section 6.02--OPTIONAL FORMS OF DISTRIBUTION.

- (a) Retirement Benefits. There shall be no optional forms of distribution.
- (b) Death Benefits. There shall be no optional forms of death benefits,
- (c) Qualifying Employer Securities. There shall be no optional forms of distribution.

#### Section 6.03--ELECTION PROCEDURES.



The Participant or Beneficiary shall make any election under this section in writing. The Plan Administrator may require such individual to complete and sign any necessary documents as to the provisions to be made. Any election permitted under (a) and (b) below shall be subject to the qualified election provisions of (c) below.

- (a) Retirement Benefits. A Participant may elect his Beneficiary and may elect to have retirement benefits distributed under any of the optional forms of retirement benefit available under Section 6.02, if any.
- (b) Death Benefits. A Participant may elect his Beneficiary and may elect to have death benefits distributed under any of the optional forms of death benefit available under Section 6.02, if any.

If the Participant has not elected an optional form of distribution for the death benefit payable to his Beneficiary, the Beneficiary may, for his own benefit, elect the form of distribution, in like manner as a Participant.

- (c) Qualified Election. The Participant or Beneficiary may make an election at any time during the election period. The Participant or Beneficiary may revoke the election made (or make a new election) at any time and any number of times during the election period. An election is effective only if it meets the consent requirements below.
  - (1) Election Period for Retirement Benefits. The Participant may make an election as to retirement benefits at any time before the Annuity Starting Date.
  - (2) Election Period for Death Benefits. A Participant may make an election as to death benefits at any time before he dies. The Beneficiary's election period begins on the date the Participant dies and ends on the date benefits begin.
  - (3) Consent to Election. If the Participant's Vested Account, if any (inclusive of Rollover Contributions) exceeds \$5,000, any benefit that is immediately distributable requires the consent of the Participant.

The consent of the Participant to a benefit that is immediately distributable must not be made before the date the Participant is provided with the notice of the ability to defer the distribution. Such consent shall be in writing.

The consent shall not be made more than 180 days before the Annuity Starting Date. The consent of the Participant shall not be required to the extent that a distribution is required to satisfy Code Section 401(a)(9) or 415.

In addition, upon termination of this Plan, if the Plan does not offer an annuity option (purchased from a commercial provider), and if the Employer (or any entity within the same Controlled Group) does not maintain another defined contribution plan (other than an employee stock ownership plan as defined in Code Section 4975(e)(7)), the Participant's Account balance will, without the Participant's consent, be distributed to the Participant. However, if any entity within the same Controlled Group maintains another defined contribution plan (other than an employee stock ownership plan as defined in Code Section 4975(e)(7)) the Participant's Account will be transferred, without the Participant's consent, to the other plan if the Participant does not consent to an immediate distribution.

A benefit is immediately distributable if any part of the benefit could be distributed to the Participant before the Participant attains the older of Normal Retirement Age or age 62.

Spousal consent is needed to name a Beneficiary other than the Participant's spouse. If the Participant names a Beneficiary other than his spouse, the spouse has the right to limit consent only to a specific Beneficiary. The spouse can relinquish such right. Such consent shall be in writing. The spouse's consent shall be witnessed by a plan representative or notary public. The spouse's consent must acknowledge the effect of the election, including that the spouse had the right to limit consent only to a specific Beneficiary and that the relinquishment of such right was voluntary. Unless the consent of the spouse expressly permits designations by the Participant without a requirement of further consent by the spouse, the spouse's consent must be limited to the Beneficiary, class of Beneficiaries, or contingent Beneficiary named in the election.

Spousal consent is not required, however, if the Participant establishes to the satisfaction of the plan representative that the consent of the spouse cannot be obtained because there is no spouse or the spouse cannot be located. A spouse's consent under this paragraph shall not be valid with respect to any other spouse. A Participant may revoke a prior election without the consent of the spouse. Any new election will require a new spousal consent, unless the consent of the spouse expressly permits such election by the Participant without further consent by the spouse. A spouse's consent may be revoked at any time within the Participant's election period.

### **Section 6.04--NOTICE REQUIREMENTS.**

Optional Forms of Retirement Benefit and Right to Defer. The Plan Administrator shall furnish to the Participant a written explanation of the right of the Participant to defer distribution until such time it is no longer immediately distributable. Such notice shall include a written explanation of the optional forms of retirement benefit, if any are provided under the Plan, including a general description of the material features of these options.

The Plan Administrator shall furnish the written explanation by a method reasonably calculated to reach the attention of the Participant no less than 30 days, and no more than 180 days, before the Annuity Starting Date.

However, distribution may begin less than 30 days after the notice described in this subparagraph is given, provided the Plan Administrator clearly informs the Participant that he has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and if applicable, a particular distribution option), and the Participant, after receiving the notice, affirmatively elects a distribution.

### **Section 6.05--FORMS OF DISTRIBUTION FOR QUALIFYING EMPLOYER SECURITIES.**

Notwithstanding any provision of this Article VI to the contrary, distributions from the portion of a Participant's Account holding Qualifying Employer Securities shall be governed by this section.

- (a) Distribution in Cash or Qualifying Employer Securities. The part of a Participant's Vested Accounts that is invested in Qualifying Employer Securities will be distributed in the form of Qualifying Employer Securities, with cash distributed in lieu of a fractional share, unless the Participant affirmatively elects under paragraph (b) below to receive the distribution in the form cash. The cash value of Qualifying Employer Securities shall be equal to the fair market value of such stock determined as of the last Valuation Date prior to the date of distribution.

- (b) Distribution in Qualifying Employer Securities. Unless subsection (c) applies, a Participant may elect to have the Participant's Vested Accounts holding Qualifying Employer Securities distributed in the form of cash, provided that the value of such Qualifying Employer Securities is \$1,000 or less. Any cash or other property in the Participant's Vested Account ("non-company stock assets") shall not be used to acquire Qualifying Employer Securities for distribution, but shall be distributed in cash. If more than one class of Qualifying Employer Securities exists, any distribution shall be made on a pro rata basis from the Participant's Account resulting from each class of Qualifying Employer Securities in the same proportion that such Contributions were made.
- (c) Distribution in Qualifying Employer Securities Prohibited. If the Employer's corporate charter or by-law provisions restrict ownership of substantially all outstanding Qualifying Employer Securities to Employees or to a plan or trust described in Code Section 401(a), then, at the discretion of the Plan Administrator, any distribution of a Participant's Accounts shall be made in cash, or in shares of Qualifying Employer Securities subject to an immediate put to the Employer pursuant to the Section 6.05.

If the Plan holds Qualifying Employer Securities of an S Corporation, at the discretion of the Plan Administrator, distribution of such Participant's Accounts shall be made in cash, or in shares of Qualifying Employer Securities subject to an immediate put to the Employer pursuant to Section 6.05.

### **Section 6.06--PUT OPTION.**

If shares of Qualifying Employer Securities are distributed from the Trust Fund, and if such shares are not readily tradable (per IRS Notice 2011-19) when distributed, then such shares shall be subject to an initial and second put option as follows:

- (a) The put option shall be exercisable by the distributee (whether the Participant or a Beneficiary), any person to whom shares of Qualifying Employer Securities have been passed by gift from the distributee, or any person (including an estate or the distributee from an estate) to whom the shares of Qualifying Employer Securities passed upon the death of the distributee (hereinafter referred to as the "holder").
- (b) The initial put option must be exercised during the 60-day period which begins on the date the shares of Qualifying Employer Securities are distributed from the Trust Fund. If not exercised during that period, the initial put option shall lapse.
- (c) As soon as is reasonably practicable following the last day of the Plan Year in which the initial 60-day period expires, the Employer shall notify all of the non-electing holders of the valuation of such Qualifying Employer Securities as of the most recent Valuation Date. During the 60-day period following the receipt of such valuation notice, any such non-electing holder shall have a second put option.
- (d) The period during which the put option is exercisable shall not include any time when a holder is unable to exercise the put option because the Employer is prohibited from honoring the put option by federal or state law. If the shares of Qualifying Employer Securities are readily tradable (per IRS Notice 2011-19) when distributed but cease to be traded within either of the 60-day periods described herein after distribution, the Employer must notify each holder in writing on or before the tenth day after the date the shares cease to be so traded that for the remainder of the applicable 60-day period the shares are subject to a put option. The number of days between such tenth day and the date on which notice is actually given, if later than the tenth day, must be added to the

duration of the put option. The notice must inform the holders of the terms of the put option.

- (e) The put option may be exercised by written notice of exercise to the Employer or its designee made on such form and in accordance with such rules as may be prescribed for this purpose by the Plan Administrator.

Upon receipt of such notice, the Employer shall tender to the holder the fair market value of the Qualifying Employer Securities (as determined under Sections 4.02(e) and (f)) for such shares.

- (f) If the Qualifying Employer Securities were distributed in a total distribution, then the Employer may pay either a lump sum or substantially equal annual installments (bearing a reasonable rate of interest and providing adequate security to the holder) over a period beginning within 30 days following the date the put option is exercised and ending not more than five (5) years after the date the put option is exercised.

If the Qualifying Employer Securities were not distributed in a total distribution then the Employer must pay the holder in a single lump sum payment.

If a distribution is made in installments, the Employer shall, within 30 days of the date the holder exercises the put option, give the holder a promissory note for the full unpaid balance of the option's price.

- (g) The Plan Trust Fund is not bound to purchase shares of Qualifying Employer Securities pursuant to the put option, but the Employer may direct the Trustee to cause the Plan

Trust Fund to assume the Employer's rights and obligations to acquire shares of Qualifying Employer Securities under the put option.

- (h) A "total distribution" for this purpose means a distribution to a Participant or Beneficiary within one taxable year of such recipient to the entire balance to the credit of the Participant.

## **Section 6.07--RIGHT OF FIRST REFUSAL.**

- (a) If any Participant, his Beneficiary or any other person to whom shares of Qualifying Employer Securities are distributed from the Plan (the "Selling Participant") shall, at any time, desire to sell some or all of such shares (the "Offered Shares") to a third party (the "Third Party"), the Selling Participant shall give written notice of such desire to the Employer and the Administrator, which notice shall contain the number of shares offered for sale, the proposed terms of the sale and the names and addresses of both the Selling Participant and the Third Party. Both the Trust Fund and the Employer shall each have the right of first refusal for a period of fourteen (14) days from the date the Selling Participant gives such written notice to the Employer and the Administrator (such fourteen (14) day period to run concurrently against the Trust Fund and the Employer) to acquire the Offered Shares. As between the Trust Fund and the Employer, the Trust Fund shall have priority to acquire the shares pursuant to the right of first refusal. The selling price and terms shall be the same as offered by the Third Party.
- (b) If the Trust Fund and the Employer do not exercise their right of first refusal within the required fourteen (14) day period provided above, the Selling Participant shall have the right, at any time following the expiration of such fourteen (14) day period, to dispose of

the Offered Shares to the Third Party; provided, however, that (i) no disposition shall be made to the Third Party on terms more favorable to the Third Party than those set forth in the written notice delivered by the Selling Participant above, and (ii) if such disposition shall not be made to a third party on the terms offered to the Employer and the Trust Fund, the Offered Shares shall again be subject to the right of first refusal set forth above.

- (c) The closing pursuant to the exercise of the right of first refusal under subparagraph (a) above shall take place at such place agreed upon between the Administrator and the Selling Participant, but not later than ten (10) days after the Employer or the Trust Fund shall have notified the Selling Participant of the exercise of the right of first refusal. At such closing, the Selling Participant shall deliver certificates representing the Offered Shares duly endorsed in blank for transfer, or with stock powers attached duly executed in blank with all required transfer tax stamps attached or provided for, and the Employer or the Trust Fund shall deliver the purchase price, or an appropriate portion thereof, to the Selling Participant.

The provisions of this section shall apply only to Qualifying Employer Securities which are not readily tradable, regardless of whether they are acquired with the proceeds of an Exempt Loan. For purposes of this section, the term "readily tradable" means (i) the security is traded on a national securities exchange that is registered under Section 6 of the Securities Exchange Act of 1934 (15 U.S.C. 78f) or (ii) the security is traded on a foreign national securities exchange that is officially recognized, sanctioned, or supervised by a governmental authority and the security is deemed by the SEC as having a "ready market" under SEC Rule 15c3-1 (17 CFR 240.15c3-1).

## ARTICLE VII

### REQUIRED MINIMUM DISTRIBUTIONS

#### Section 7.01--APPLICATION.

The timing of any distribution (including any optional form of distribution provided under Article VI) must meet the requirements of this article.

#### Section 7.02--DEFINITIONS.

For purposes of this article, the following terms are defined:

- (a) **Distribution Calendar Year** means a calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year that contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin under Section 7.03(b)(2). The required minimum distribution for the Participant's first Distribution Calendar Year will be made on or before the Participant's Required Beginning Date. The required minimum distribution for other Distribution Calendar Years, including the required minimum distribution for the Distribution Calendar Year in which the Participant's Required Beginning Date occurs, will be made on or before December 31 of that Distribution Calendar Year.

- (b) **Eligible Designated Beneficiary** means an individual who, as of the date of the Participant's death, is the Participant's surviving spouse, the Participant's minor child (within the meaning of Code Section 401(9)(F)), a disabled person (as determined under Code Section 72(m)(7)), a chronically ill person (as defined in Code Section 7702B(c)(2)), or an individual who is not more than ten (10) years younger than the Participant.
- (c) **5-percent Owner** means a Participant who is treated as a 5-percent Owner for purposes of this article. A Participant is treated as a 5-percent Owner for purposes of this article if such Participant is a 5-percent owner as defined in Code Section 416 at any time during the Plan Year ending with or within the calendar year in which such owner attains age 72 (age 70½ for Participants who reached age 70½ prior to January 1, 2020) .

Once distributions have begun to a 5-percent Owner under this article, they must continue to be distributed, even if the Participant ceases to be a 5-percent Owner in a subsequent year.

- (d) **Life Expectancy** means life expectancy as computed by use of the Single Life Table in Q&A-1 in section 1.401 (a)(9)-9 of the regulations.
- (e) **Participant's Account Balance** means the Account balance as of the last Valuation Date in the calendar year immediately preceding the Distribution Calendar Year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the Account as of dates in the valuation calendar year after the Valuation Date and decreased by distributions made in the valuation calendar year after the Valuation Date. The Account balance for the valuation calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the Distribution Calendar Year if distributed or transferred in the valuation calendar year.
- (f) **Required Beginning Date** means, for a Participant who is a 5-percent Owner, April 1 of the calendar year following the calendar year in which he attains age 70 1/2.

Required Beginning Date means, for any Participant who is not a 5-percent Owner, April 1 of the calendar year following the later of the calendar year in which he attains age 70 1/2 or the calendar year in which he retires.

Notwithstanding the foregoing, in determining the Required Beginning Date of a Participant who attains age 70 1/2 on or after January 1, 2020, each reference to "age 70 1/2" that appears in this Section 7.02(f) shall be substituted with "age 72".

### **Section 7.03--REQUIRED MINIMUM DISTRIBUTIONS.**

(a) General Rules.

- (1) The requirements of this article shall apply to any distribution of a Participant's interest and will take precedence over any inconsistent provisions of this Plan.
- (2) All distributions required under this article shall be determined and made in accordance with the regulations under Code Section 401(a)(9), including the incidental death benefit requirement in Code Section 401 (a)(9)(G), and the regulations thereunder.

(b) Time and Manner of Distribution.

- (1) Required Beginning Date. The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's Required Beginning Date.
- (2) Death of Participant Before Distributions Begin. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:
  - (i) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary, distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 72 (age 70 1/2 for deceased Participants who would have attained age 70 1/2 prior to January 1, 2020), if later, except to the extent that an election is made to receive distributions in accordance with the 5-year rule under paragraph (e) below. Under the 5-year rule, the Participant's entire interest will be distributed to the Designated Beneficiary by December 31 of the calendar year containing the fifth anniversary of the Participant's death.
  - (ii) If the Participant's surviving spouse is not the Participant's sole Designated Beneficiary, distributions to the Designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, except to the extent that an election is made to receive distributions in accordance with the 5-year rule under paragraph (e) below. Under the 5-year rule, the Participant's entire interest will be distributed to the Designated Beneficiary by December 31 of the calendar year containing the fifth anniversary of the Participant's death.
  - (iii) If there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.
  - (iv) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse are required to begin, this paragraph (b)(2), other than paragraph (b)(2)(i), will apply as if the surviving spouse were the Participant.

For purposes of this paragraph (b)(2) and paragraph (d) below, unless paragraph (b)(2)(iv) above applies, distributions are considered to begin on the Participant's Required Beginning Date. If paragraph (b)(2)(iv) above applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under paragraph (b)(2)(i) above. If distributions under an annuity purchased from an insurance company irrevocably commence to the Participant before the Participant's Required Beginning Date (or to the Participant's surviving spouse before the date distributions are required to begin to the surviving spouse under paragraph (b)(2)(i) above), the date distributions are considered to begin is the date distributions actually commence.

- (3) Forms of Distribution. The Participant's interest shall be distributed in the form of a single sum on or before the Required Beginning Date.

(c) Required Minimum Distributions During Participant's Lifetime.

- (1) Amount of Required Minimum Distribution For Each Distribution Calendar Year. During the Participant's lifetime, the minimum amount that will be distributed for each Distribution Calendar Year is the lesser of:
  - (i) the quotient obtained by dividing the Participant's Account Balance by the distribution period in the Uniform Lifetime Table set forth in Q&A-2 in section 1.401(a)(9)-9 of the regulations, using the Participant's age as of the Participant's birthday in the Distribution Calendar Year; or
  - (ii) if the Participant's sole Designated Beneficiary for the Distribution Calendar Year is the Participant's spouse, the quotient obtained by dividing the Participant's Account Balance by the number in the Joint and Last Survivor Table set forth in Q&A-3 in section 1.401(a)(9)-9 of the regulations, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the Distribution Calendar Year.
- (2) Lifetime Required Minimum Distributions Continue Through Year of Participant's Death. Required minimum distributions will be determined under this paragraph (c) beginning with the first Distribution Calendar Year and continuing up to, and including, the Distribution Calendar Year that includes the Participant's date of death.

(d) Required Minimum Distributions After Participant's Death.

- (1) Death On or After Date Distributions Begin.
  - (i) Participant Survived by Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is a Designated Beneficiary, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account Balance by the longer of the remaining Life Expectancy of the Participant or the remaining Life Expectancy of the Participant's Designated Beneficiary, determined as follows:
    - (A) The Participant's remaining Life Expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.
    - (B) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary, the remaining Life Expectancy of the surviving spouse is calculated for each Distribution Calendar Year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For Distribution Calendar Years after the year of the surviving spouse's death, the remaining Life Expectancy of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.
    - (C) If the Participant's surviving spouse is not the Participant's sole Designated Beneficiary, the Designated Beneficiary's remaining



Life Expectancy is calculated using the age of the Beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

- (ii) No Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is no Designated Beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account Balance by the Participant's remaining Life Expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(2) Death Before Date Distributions Begin.

- (i) Participant Survived by Designated Beneficiary. If the Participant dies before the date distributions begin and there is a Designated Beneficiary, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account Balance by the remaining Life Expectancy of the Participant's Designated Beneficiary, determined as provided in paragraph (d)(1) above, except to the extent that an election is made to receive distributions in accordance with the 5-year rule under paragraph (e) below. Under the 5-year rule, the Participant's entire interest will be distributed to the Designated Beneficiary by December 31 of the calendar year containing the fifth anniversary of the Participant's death.
  - (ii) No Designated Beneficiary. If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.
  - (iii) Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin. If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole Designated Beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under paragraph (b)(2)(i) above, this paragraph (d)(2) will apply as if the surviving spouse were the Participant.
- (e) Election of 5-year Rule. Participants or Beneficiaries may elect on an individual basis whether the 5-year rule in paragraph (b)(2) and paragraph (d)(2) above applies to distributions after the death of a Participant who has a Designated Beneficiary. The election must be made no later than the earlier of September 30 of the calendar year in which the distribution would be required to begin under paragraph (b)(2) above if no such election is made, or by September 30 of the calendar year which contains the fifth anniversary of the Participant's (or, if applicable, surviving spouse's) death.
- (f) Requirements for Minimum Distributions Where Participant Dies After December 31, 2019.

- (1) Notwithstanding any provision of this Section 7.03 to the contrary, in the event of the death of a Participant on or after January 1, 2020, if the Participant has a Designated Beneficiary, such Participant's benefits shall be distributed in full by the end of the tenth calendar year following the calendar year of such Participant's death. This provision shall be applicable whether the Participant's death occurs before or after the Participant's Required Beginning Date.
- (2) The life expectancy provisions set forth in this Section 7.03 applicable on the death of the Participant shall continue to apply with respect to distributions to an Eligible Designated Beneficiary, provided, however, that any remaining benefits must be distributed within ten (10) years of the death Eligible Designated Beneficiary's death and, in the event of a minor child of a Participant who is an Eligible Designated Beneficiary, any remaining benefits must be distributed within ten (10) years of such beneficiary attaining the age of majority.

## **ARTICLE VIII**

### **TERMINATION OF THE PLAN**

The Employer expects to continue the Plan indefinitely but reserves the right to terminate the Plan in whole or in part at any time upon giving written notice to all parties concerned.

The Account of each Participant shall be 100% vested and nonforfeitable as of the effective date of the complete termination of the Plan. The Account of each Participant shall also be 100% vested and nonforfeitable upon complete discontinuance of Contributions as of the effective date of the amendment to cease Contributions or the date determined by the Internal Revenue Service. Further, the Account of each Participant who is included in the group of Participants deemed to be affected by a partial termination of the Plan (as determined by the Plan Administrator or a governmental entity authorized to make such determination) shall be 100% vested and nonforfeitable as of the effective date of such event. The Participant's Vested Account shall continue to participate in the earnings credited, expenses charged, and any appreciation or depreciation of the Investment Fund until his Vested Account is distributed.

A Participant's Vested Account that does not result from the following Contributions may be distributed to the Participant after the effective date of the complete termination of the Plan:

- Elective Deferral Contributions
- Qualified Matching Contributions
- Qualified Nonelective Contributions

A Participant's Vested Account resulting from such Contributions may be distributed upon complete termination of the Plan, but only if neither the Employer nor any Controlled Group member maintain another defined contribution plan (other than an employee stock ownership plan as defined in Code Section 4975(e)(7) or 409(a), a simplified employee pension plan as defined in Code Section 408(k), a SIMPLE IRA plan as defined in Code Section 408(p), a plan or contract that satisfies the requirements of Code Section 403(b), or a plan described in Code Section 457(b) or (f)) at any time during the period beginning on the date of complete termination of the Plan and ending 12 months after all assets have been distributed from the Plan. Such distribution is made in a lump sum. A distribution under this article shall be a retirement benefit and shall be distributed to the Participant according to the provisions of Article VI.

The Participant's entire Vested Account shall be paid in a single sum to the Participant as of the effective date of complete termination of the Plan if (i) the requirements for distribution of Elective Deferral Contributions in the above paragraph are met and (ii) consent of the Participant is not required in accordance with Section 6.03 to distribute a benefit that is immediately distributable. This is a small amounts payment. The small amounts payment is in full settlement of all benefits otherwise payable.

Upon complete termination of the Plan, no more Employees shall become Participants and no more Contributions shall be made.

The assets of this Plan shall not be paid to the Employer at any time, except that, after the satisfaction of all liabilities under the Plan, any assets remaining may be paid to the Employer. The payment may not be made if it would contravene any provision of law.

## **ARTICLE IX**

### **ADMINISTRATION OF THE PLAN**

#### **Section 9.01--ADMINISTRATION.**

Subject to the provisions of this article, the Plan Administrator has complete control of the administration of the Plan. The Plan Administrator has all the powers necessary for it to properly carry out its administrative duties. Not in limitation, but in amplification of the foregoing, the Plan Administrator has complete discretion to construe or interpret the provisions of the Plan, including ambiguous provisions, if any, and to determine all questions that may arise under the Plan, including all questions relating to the eligibility of Employees to participate in the Plan and the amount of benefit to which any Participant or Beneficiary may become entitled. The Plan Administrator's decisions upon all matters within the scope of its authority shall be final.

The Plan Administrator shall be the Human Resources Department of Investar Bank. Unless otherwise set out in the Plan or Annuity Contract, the Chief Human Resources Officer of Investar Bank may delegate recordkeeping and other duties that are necessary to assist it with the administration of the Plan to any person or firm which agrees to accept such duties. The Plan Administrator shall be entitled to rely upon all tables, valuations, certificates and reports furnished by the consultant or actuary appointed by the Plan Administrator and upon all opinions given by any counsel selected or approved by the Plan Administrator.

The Plan Administrator shall receive all claims for benefits by Participants, former Participants and Beneficiaries. The Plan Administrator shall determine all facts necessary to establish the right of any Claimant to benefits and the amount of those benefits under the provisions of the Plan. The Plan Administrator may establish rules and procedures to be followed by Claimants in filing claims for benefits, in furnishing and verifying proofs necessary to determine age, and in any other matters required to administer the Plan.

#### **Section 9.02--EXPENSES.**

Expenses of the Plan, to the extent that the Employer does not pay such expenses, may be paid out of the assets of the Plan provided that such payment is consistent with ERISA. Expenses of the Plan will be paid in accordance with the most recent service and expense agreement or such other documents duly entered into by or with regard to the Plan that govern such matters. Such expenses include, but are not limited to, expenses for bonding required by ERISA; expenses for recordkeeping and other administrative services; fees and expenses of the Trustee or Annuity Contract; expenses for investment education service; and direct costs that the Employer incurs with respect to the Plan. Expenses that relate solely to a specific Participant or Alternate Payee may be assessed against such Participant or Alternate Payee as provided in the service and expense agreement or such other documents duly entered into by or with regard to the Plan that govern such matters.

### **Section 9.03--RECORDS.**

All acts and determinations of the Plan Administrator shall be duly recorded. All these records, together with other documents necessary for the administration of the Plan, shall be preserved in the Plan Administrator's custody.

Writing (handwriting, typing, printing), photostating, photographing, microfilming, magnetic impulse, mechanical or electrical recording, or other forms of data compilation shall be acceptable means of keeping records.

### **Section 9.04--INFORMATION AVAILABLE.**

Any Participant in the Plan or any Beneficiary may examine copies of the summary plan description, latest annual report, any bargaining agreement, this Plan, the Annuity Contract, or any other instrument under which the Plan was established or is operated. The Plan Administrator shall maintain all of the items listed in this section in its office, or in such other place or places as it may designate in order to comply with governmental regulations. These items may be examined during reasonable business hours. Upon the written request of a Participant or Beneficiary receiving benefits under the Plan, the Plan Administrator shall furnish him with a copy of any of these items. The Plan Administrator may make a reasonable charge to the requesting person for the copy.

### **Section 9.05--CLAIM PROCEDURES.**

A Claimant must submit any necessary forms and needed information when making a claim for benefits under the Plan.

If a claim for benefits under the Plan is wholly or partially denied, the Plan Administrator shall provide adequate written notice to the Claimant whose claim for benefits under the Plan has been denied. The notice must be furnished within 90 days of the date that the claim is received by the Plan without regard to whether all of the information necessary to make a benefit determination is received. The Claimant shall be notified in writing within this initial 90-day period if special circumstances require an extension of the time needed to process the claim. The notice shall indicate the special circumstances requiring an extension of time and the date by which the Plan Administrator's decision is expected to be rendered. In no event shall such extension exceed a period of 90 days from the end of the initial 90-day period.

The Plan Administrator's notice to the Claimant shall: (i) specify the reason or reasons for the denial; (ii) reference the specific Plan provisions on which the denial is based; (iii) describe any additional material and information needed for the Claimant to perfect his claim for benefits; (iv) explain why the

material and information is needed; and (v) inform the Claimant of the Plan's appeal procedures and the time limits applicable to such procedures, including a statement of the Claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on appeal.

Any appeal made by a Claimant must be made in writing to the Plan Administrator within 60 days after receipt of the Plan Administrator's notice of denial of benefits. If the Claimant appeals to the Plan Administrator, the Claimant may submit written comments, documents, records, and other information relating to the claim for benefits. The Claimant shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits. The Plan Administrator shall review the claim taking into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

The Plan Administrator shall provide adequate written notice to the Claimant of the Plan's benefit determination on review. The notice must be furnished within 60 days of the date that the request for review is received by the Plan without regard to whether all of the information necessary to make a benefit determination on review is received. The Claimant shall be notified in writing within this initial 60-day period if special circumstances require an extension of the time needed to process the claim. The notice shall indicate the special circumstances requiring an extension of time and the date by which the Plan Administrator expects to render the determination on review. In no event shall such extension exceed a period of 60 days from the end of the initial 60-day period.

In the event the benefit determination is being made by a committee or board of trustees that hold regularly scheduled meetings at least quarterly, the above paragraph shall not apply. The benefit determination must be made by the date of the meeting of the committee or board that immediately follows the Plan's receipt of a request for review, unless the request for review is filed within 30 days preceding the date of such meeting. In such case, the benefit determination must be made by the date of the second meeting following the Plan's receipt of the request for review. The date of the receipt of the request for review shall be determined without regard to whether all of the information necessary to make a benefit determination on review is received. The Claimant shall be notified in writing within this initial period if special circumstances require an extension of the time needed to process the claim. The notice shall indicate the special circumstances requiring an extension of time and the date by which the committee or board expects to render the determination on review. In no event shall such benefit determination be made later than the third meeting of the committee or board following the Plan's receipt of the request for review. The Plan Administrator shall provide adequate written notice to the Claimant of the Plan's benefit determination on review as soon as possible, but not later than five days after the benefit determination is made.

If the claim for benefits is wholly or partially denied on review, the Plan Administrator's notice to the Claimant shall: (i) specify the reason or reasons for the denial; (ii) reference the specific Plan provisions on which the denial is based; (iii) include a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits; and (iv) include a statement of the Claimant's right to bring a civil action under ERISA Section 502(a).

Upon the exhaustion of the administrative remedies provided herein, a Claimant shall be entitled to pursue such additional remedies as may be available under Section 502(a) of ERISA, provided that any such action is undertaken not more than one (1) year from the Plan Administrator's notice (or from the last day (including any extension) that such notice could have been timely provided).

A Claimant may authorize a representative to act on the Claimant's behalf with respect to a benefit claim or appeal of an adverse benefit determination. Such authorization shall be made by completion of a form furnished for that purpose. In the absence of any contrary direction from the

Claimant, all information and notifications to which the Claimant is entitled shall be directed to the authorized representative.

### **Section 9.06--DELEGATION OF AUTHORITY.**

All or any part of the administrative duties and responsibilities under this article may be delegated by the Plan Administrator to a retirement committee. The duties and responsibilities of the retirement committee shall be set out in a separate written agreement.

The Board of Directors of Investar Corporation may establish an investment committee, which shall be delegated the duties and responsibilities described in the Plan and the Trust Agreement related to the investment and reinvestment of the assets comprising the Trust, from time to time. Such duties and responsibilities may be further described in a separate written policy.

### **Section 9.07--EXERCISE OF DISCRETIONARY AUTHORITY.**

The Employer, Plan Administrator, and any other person or entity who has authority with respect to the management, administration, or investment of the Plan may exercise that authority in its/his full discretion, subject only to the duties imposed under ERISA. This discretionary authority includes, but is not limited to, the authority to make any and all factual determinations and interpret all terms and provisions of the Plan documents relevant to the issue under consideration. The exercise of authority will be binding upon all persons.

### **Section 9.08--TRANSACTION PROCESSING.**

Transactions (including, but not limited to, investment directions, trades, loans, and distributions) shall be processed as soon as administratively practicable after proper directions are received from the Participant or other parties. No guarantee is made by the Plan, Plan Administrator, Trustee, Insurer, or Employer that such transactions will be processed on a daily or other basis, and no guarantee is made in any respect regarding the processing time of such transactions.

Notwithstanding any other provision of the Plan, the Employer, the Plan Administrator, or the Trustee reserves the right to not value an investment option on any given Valuation Date for any reason deemed appropriate by the Employer, the Plan Administrator, or the Trustee, except that such investment option shall be valued as of the last day of the Plan Year as stated in the definition of Valuation Date in Article I.

Administrative practicality will be determined by legitimate business factors (including, but not limited to, failure of systems or computer programs, failure of the means of the transmission of data, force majeure, the failure of a service provider to timely receive values or prices, and correction for errors or omissions or the errors or omissions of any service provider) and in no event will be deemed to be less than 14 days. The processing date of a transaction shall be binding for all purposes of the Plan and considered the applicable Valuation Date for any transaction.

## **ARTICLE X**

### **GENERAL PROVISIONS**

## **Section 10.01--AMENDMENTS.**

The Employer may amend this Plan at any time, including any remedial retroactive changes (within the time specified by Internal Revenue Service regulations), to comply with any law or regulation issued by any governmental agency to which the Plan is subject. The Employer may delegate the power to amend this Plan to such person or persons or committee as the Employer deems appropriate.

An amendment may not allow reversion or diversion of Plan assets to the Employer at any time, except as may be required to comply with any law or regulation issued by any governmental agency to which the Plan is subject.

An amendment may not eliminate or reduce a benefit that is protected under Code Section 411(d)(6) ("411(d)(6) protected benefit"), protected benefit, as defined in Q&A-1 in section 1.411 (d)-4 of the regulations, that has already accrued, except as provided in section 1.411(d)-3 or 1.411 (d)-4 of the regulations. This is generally the case even if such elimination or reduction is contingent upon the Employee's consent and includes an amendment that otherwise places greater restrictions or conditions on a Participant's right to section 411(d)(6) protected benefits, even if the amendment merely adds a restriction or condition that is permitted under the vesting rules in Code Section 411 (a)(3) through (11). However, the Plan may be amended to eliminate or reduce section 411(d)(6) protected benefits with respect to benefits not yet accrued as of the later of the amendment's adoption date or effective date without violating Code Section 411(d)(6). For purposes of this paragraph, an amendment that has the effect of decreasing a Participant's Account balance, with respect to benefits attributable to service before the amendment, shall be treated as reducing an accrued benefit.

No amendment to the Plan shall be effective to eliminate or restrict an optional form of benefit. The preceding sentence shall not apply to a Plan amendment that eliminates or restricts the ability of a Participant to receive payment of his Account balance under a particular optional form of benefit if the amendment provides a single sum distribution form that is otherwise identical to the optional form of benefit being eliminated or restricted. For this purpose, a single sum distribution form is otherwise identical only if the single sum distribution form is identical in all respects to the eliminated or restricted optional form of benefit (or would be identical except that it provides greater rights to the Participant) except with respect to the timing of payments after commencement.

If, as a result of an amendment, an Employer Contribution is removed that is not 100% immediately vested when made, the applicable vesting schedule in effect as of the last day such Contributions were permitted shall remain in effect with respect to that part of the Participant's Account resulting from such Contributions. The Participant shall not become immediately 100% vested in such Contributions as a result of the elimination of such Contribution except as otherwise specifically provided in the Plan.

An amendment shall not decrease a Participant's vested interest in the Plan. If an amendment to the Plan changes the computation of the percentage used to determine that portion of a Participant's Account attributable to Employer Contributions which is nonforfeitable (whether directly or indirectly), in the case of an Employee who is a Participant as of the later of the date such amendment or change is adopted or the date it becomes effective, the nonforfeitable percentage (determined as of such date) of such Employee's right to his Account attributable to Employer Contributions shall not be less than the percentage computed under the Plan without regard to such amendment or change. Furthermore, each Participant or former Participant

- (a) who has completed at least three Years of Service on the date the election period described below ends, and

(b) whose nonforfeitable percentage will be determined on any date after the date of the change

may elect, during the election period, to have the nonforfeitable percentage of his Account resulting from Employer Contributions determined without regard to the amendment. This election may not be revoked. If after the Plan is changed, the Participant's nonforfeitable percentage will at all times be as great as it would have been if the change had not been made, no election needs to be provided. The election period shall begin no later than the date the Plan amendment is adopted and end no earlier than the 60th day after the latest of the date the amendment is adopted or becomes effective, or the date the Participant is issued written notice of the amendment by the Employer or the Plan Administrator.

With respect to a Participant's Account attributable to Employer Contributions accrued as of the later of the adoption or effective date of the amendment and earnings, the vested percentage of each Participant will be the greater of the vested percentage under the old vesting schedule or the vested percentage under the new vesting schedule.

### **Section 10.02--DIRECT ROLLOVERS.**

Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Distributee's election under this section, a Distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

In the event of a Mandatory Distribution of an Eligible Rollover Distribution greater than \$1,000 in accordance with Section 10.11 (or which is a small amounts payment under Article VIII at complete termination of the Plan), if the Participant does not elect to have such distribution paid directly to an Eligible Retirement Plan specified by the Participant in a Direct Rollover or to receive the distribution directly, the Plan Administrator will pay the distribution in a Direct Rollover to an individual retirement plan designated by the Plan Administrator.

For purposes of determining whether a Mandatory Distribution is greater than \$1,000, a Designated Roth Account and all other accounts under the Plan shall be treated as accounts held under two separate plans and shall not be combined.

In the event of any other Eligible Rollover Distribution to a Distributee in accordance with Section 10.11 (or which is a small amounts payment under Article VIII at complete termination of the Plan), if the Distributee does not elect to have such distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover or to receive the distribution directly, the Plan Administrator will pay the distribution to the Distributee.

### **Section 10.03--MERGERS AND DIRECT TRANSFERS.**

The Plan may not be merged or consolidated with, nor have its assets or liabilities transferred to, any other retirement plan, unless each Participant in this Plan would (if that plan then terminated) receive a benefit immediately after the merger, consolidation, or transfer that is equal to or greater than the benefit the Participant would have been entitled to receive immediately before the merger, consolidation, or transfer (if this Plan had then terminated). The Employer may enter into merger agreements or direct transfer of assets agreements with the employers under other retirement plans which are qualifiable under Code Section 401(a), including an elective transfer, and may accept the direct transfer of plan assets, or may transfer plan assets, as a party to any such agreement. The Employer shall not consent to, or be a party to a merger, consolidation, or transfer of assets with a defined benefit plan if such action



would result in a defined benefit feature being maintained under this Plan. The Employer will not transfer any amounts attributable to elective deferral contributions, qualified matching contributions, qualified nonelective contributions, and contributions used to satisfy Code Section 401(k)(13) safe harbors unless the transferee plan provides that the limitations of section 1.401(k)-1 (d) of the regulations shall apply to such amounts (including post-transfer earnings thereon), unless the amounts could have been distributed at the time of the transfer (other than for hardships as described in Section 5.05 or deemed severance from employment, as described in Section 5.03, and the transfer is an elective transfer described in Q&A-3(b)(1) in section 1.411(d)-4 of the regulations.

Notwithstanding any provision of the Plan to the contrary, to the extent any optional form of benefit under the Plan permits a distribution prior to the Employee's retirement, death, disability, or Severance from Employment, and prior to plan termination, the optional form of benefit is not available with respect to benefits attributable to assets (including the post-transfer earnings thereon) and liabilities that are transferred, within the meaning of Code Section 414(l), to this Plan from a money purchase pension plan qualified under Code Section 401(a) (other than any portion of those assets and liabilities attributable to voluntary employee contributions). In addition, benefits attributable to such assets (and post-transfer earnings) from a money purchase plan must be distributed in accordance with the qualified preretirement survivor annuity and qualified joint and survivor annuity requirements (including the spousal consent requirement) of Code Section 401 (a)(1) and the regulations thereunder as stated in the money purchase plan from which the assets were transferred.

The limitations of section 1.401(k)-1 (d) of the regulations applicable to elective deferral contributions, qualified matching contributions, qualified nonelective contributions, and contributions used to satisfy Code Section 401(k)(13) safe harbors shall continue to apply to any amounts attributable to such contributions (including post-transfer earnings thereon) transferred to this Plan, unless the amounts could have been distributed at the time of the transfer (other than for hardships as described in Section 5.05 or deemed severance from employment, as described in Section 5.03, and the transfer is an elective transfer described in Q&A-3(b)(1) in section 1.411(d)-4 of the regulations.

The Plan may accept a direct transfer of plan assets on behalf of an Eligible Employee. If the Eligible Employee is not an Active Participant when the transfer is made, the Eligible Employee shall be deemed to be an Active Participant only for the purpose of investment and distribution of the transferred assets. Employer Contributions shall not be made for or allocated to the Eligible Employee, until the time he meets all of the requirements to become an Active Participant.

The Plan shall hold, administer, and distribute the transferred assets as a part of the Plan. The Plan shall maintain a separate account for the benefit of the Employee on whose behalf the Plan accepted the transfer in order to reflect the value of the transferred assets.

A Participant's section 411(d)(6) protected benefits, as defined in Q&A-1 in section 1.411(d)-4 of the regulations, may not be eliminated by reason of transfer or any transaction amending or having the effect of amending a plan or plans to transfer benefits except as provided below.

A Participant's section 411(d)(6) protected benefits may be eliminated or reduced upon transfer between qualified defined contribution plans if the conditions in Q&A-3(b)(1) in section 1.411(d)-4 of the regulations are met. The transfer must meet all of the other applicable qualification requirements.

A Participant's section 411(d)(6) protected benefits may be eliminated or reduced if a transfer is an elective transfer of certain distributable benefits between qualified plans (both defined benefit and defined contribution) and the conditions in Q&A-3(c)(1) in section 1.411 (d)-4 of the regulations are met. The rules applicable to distributions under the plan would apply to the transfer, but the transfer would not be treated as a distribution for purposes of the minimum distribution requirements of Code Section 401(a)(9). If the Participant is eligible to receive an immediate distribution of his entire Vested Account in a

single sum distribution that would consist entirely of an eligible rollover distribution under Code Section 401(a)(31), such transfer will be accomplished as a direct rollover under Code Section 401 (a)(31).

#### **Section 10.04--PROVISIONS RELATING TO THE INSURER AND OTHER PARTIES.**

The obligations of an Insurer shall be governed solely by the provisions of the Annuity Contract. The Insurer shall not be required to perform any act not provided in or contrary to the provisions of the Annuity Contract. Each Annuity Contract when purchased shall comply with the Plan. See Section 10.09.

Any issuer or distributor of investment contracts or securities is governed solely by the terms of its policies, written investment contract, prospectuses, security instruments, and any other written agreements entered into with the Trustee with regard to such investment contracts or securities.

Such Insurer, issuer or distributor is not a party to the Plan, nor bound in any way by the Plan provisions. Such parties shall not be required to look to the terms of this Plan, nor to determine whether the Employer, the Plan Administrator, the Trustee, or the Named Fiduciary have the authority to act in any particular manner or to make any contract or agreement.

Until notice of any amendment or termination of this Plan or a change in Trustee has been received by the Insurer at its home office or an issuer or distributor at their principal address, they are and shall be fully protected in assuming that the Plan has not been amended or terminated and in dealing with any party acting as Trustee according to the latest information which they have received at their home office or principal address.

#### **Section 10.05--EMPLOYMENT STATUS.**

Nothing contained in this Plan gives an Employee the right to be retained in the Employer's employ or to interfere with the Employer's right to discharge or discipline any Employee.

#### **Section 10.06--RIGHTS TO PLAN ASSETS.**

An Employee shall not have any right to or interest in any assets of the Plan upon termination of employment or otherwise except as specifically provided under this Plan, and then only to the extent of the benefits payable to such Employee according to the Plan provisions.

Any final payment or distribution to a Participant or his legal representative or to any Beneficiaries of such Participant under the Plan provisions shall be in full satisfaction of all claims against the Plan, the Named Fiduciary, the Plan Administrator, the Insurer, the Trustee, and the Employer arising under or by virtue of the Plan.

#### **Section 10.07--BENEFICIARY.**

Each Participant may name a Beneficiary to receive any death benefit that may arise out of his participation in the Plan. The Participant may change his Beneficiary from time to time. Unless a qualified election has been made, for purposes of distributing any death benefits before the Participant's Retirement Date, the Beneficiary of a Participant who has a spouse shall be the Participant's spouse. The Participant's Beneficiary designation and any change of Beneficiary shall be subject to the provisions of Section 6.03.

It is the responsibility of the Participant to give written notice to the Plan Administrator of the name of the Beneficiary on a form furnished for that purpose. The Plan Administrator shall maintain records of Beneficiary designations for Participants before their Retirement Dates. However, the Plan Administrator may delegate to another party the responsibility of maintaining records of Beneficiary designations. In that event, the written designations made by Participants shall be filed with such other party. If a party other than the Insurer maintains the records of Beneficiary designations and a Participant dies before his Retirement Date, such other party shall certify to the Insurer the Beneficiary designation on its records for the Participant.

If there is no Beneficiary named or surviving when a Participant dies, the Participant's Beneficiary shall be the Participant's surviving spouse, or where there is no surviving spouse, the executor or administrator of the Participant's estate for the benefit of the estate.

#### **Section 10.08--NONALIENATION OF BENEFITS.**

Benefits payable under the Plan are not subject to the claims of any creditor of any Participant or Beneficiary. A Participant or Beneficiary does not have any rights to alienate, anticipate, commute, pledge, encumber, or assign such benefits. Such restrictions do not apply in the case of a loan as provided in Section 5.06. The preceding sentences shall also apply to the creation, assignment, or recognition of a right to any benefit payable with respect to a Participant according to a domestic relations order, unless such order is determined by the Plan Administrator to be a qualified domestic relations order, as defined in Code Section 414(p), or any domestic relations order entered before January 1, 1985. The preceding sentences shall not apply to any offset of a Participant's benefits provided under the Plan against an amount the Participant is required to pay the Plan with respect to a judgment, order, or decree issued, or a settlement entered into, on or after August 5, 1997, which meets the requirements of Code Sections 401(a)(13)(C) or (D).

#### **Section 10.09--CONSTRUCTION.**

The validity of the Plan or any of its provisions is determined under and construed according to Federal law and, to the extent permissible, according to the laws of the state in which the Employer has its principal office. In case any provision of this Plan is held illegal or invalid for any reason, such determination shall not affect the remaining provisions of this Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had never been included.

In the event of any conflict between the provisions of the Plan and the terms of any Annuity Contract issued hereunder, the provisions of the Plan control.

#### **Section 10.10--LEGAL ACTIONS.**

No person employed by the Employer; no Participant, former Participant, or their Beneficiaries; nor any other person having or claiming to have an interest in the Plan is entitled to any notice of process. A final judgment entered in any such action or proceeding shall be binding and conclusive on all persons having or claiming to have an interest in the Plan. Should any Participant, Beneficiary or other person claiming an interest in the Plan pursue a legal action against the Plan, such legal action may not be brought more than one (1) year following the date such cause of action or proceeding arose.

#### **Section 10.11--SMALL AMOUNTS.**

If the value of the Participant's Vested Account does not exceed \$5,000, the Participant's entire Vested Account shall be distributed as of the earliest of his Retirement Date, the date he dies, or the date he has a Severance from Employment for any other reason (the date the Employer provides notice to the record keeper of the Plan of such event, if later). For purposes of this section, if the Participant's Vested Account is zero, the Participant shall be deemed to have received a distribution of such Vested Account. This is a small amounts payment.

In the event a Participant does not elect to have a small amounts payment paid directly to an Eligible Retirement Plan specified by the Participant in a Direct Rollover or to receive the distribution directly and his Vested Account is greater than \$1,000, a Mandatory Distribution will be made in accordance with Section 10.02. If his Vested Account is \$1,000 or less, the Participant's entire Vested Account shall be paid directly to him.

If a small amounts payment is made on or after the date the Participant dies, the small amounts payment shall be made to the Participant's Beneficiary. If a small amounts payment is made while the Participant is living, the small amounts payment shall be made to the Participant.

A small amounts payment is in full settlement of all benefits otherwise payable. No other small amounts payment shall be made.

### **Section 10.12--WORD USAGE.**

The masculine gender, where used in this Plan, shall include the feminine gender and the singular words, where used in this Plan, shall include the plural, unless the context indicates otherwise.

The words "in writing" and "written," where used in this Plan, shall include any other forms (such as voice response or other electronic system), as permitted by any governmental agency to which the Plan is subject.

### **Section 10.13--CHANGE IN SERVICE METHOD.**

- (a) Change of Service Method Under This Plan. If this Plan is amended to change the method of crediting service from the elapsed time method to the hours method for any purpose under this Plan, the Employee's service shall be equal to the sum of (1), (2), and (3) below:
- (1) The number of whole years of service credited to the Employee under the Plan as of the date the change is effective.
  - (2) One year of service for the computation period in which the change is effective if he is credited with the required number of Hours of Service. For that portion of the computation period ending on the date of the change (for the first day of the computation period if the change is made on the first day of the computation period), the Employee will be credited with the greater of (i) his actual Hours of Service or (ii) the number of Hours of Service that is equivalent to the fractional part of a year of elapsed time service credited as of the date of the change, if any. In determining the equivalent Hours of Service, the Employee shall be credited with 190 Hours of Service for each month and any fractional part of a month in such fractional part of a year. The number of months and any fractional part of a month shall be determined by multiplying the fractional part of a year, expressed as a decimal, by 12. For the remaining portion of the computation

period (the period beginning on the second day of the computation period and ending on the last day of the computation period if the change is made on the first day of the computation period), the Employee will be credited with his actual Hours of Service.

- (3) The Employee's service determined under this Plan using the hours method after the end of the computation period in which the change in service method was effective.

If this Plan is amended to change the method of crediting service from the hours method to the elapsed time method for any purpose under this Plan, the Employee's service shall be equal to the sum of (4), (5), and (6) below:

- (4) The number of whole years of service credited to the Employee under the Plan as of the beginning of the computation period in which the change in service method is effective.
- (5) The greater of (i) the service that would be credited to the Employee for that entire computation period using the elapsed time method or (ii) the service credited to him under the Plan as of the date the change is effective.
- (6) The Employee's service determined under this Plan using the elapsed time method after the end of the applicable computation period in which the change in service method was effective.

- (b) Transfers Between Plans with Different Service Methods. If an Employee has been a participant in another plan of the Employer that credited service under the elapsed time method for any purpose that under this Plan is determined using the hours method, then the Employee's service shall be equal to the sum of (1), (2), and (3) below:

- (1) The number of whole years of service credited to the Employee under the other plan as of the date he became an Eligible Employee under this Plan.
- (2) One year of service for the applicable computation period in which he became an Eligible Employee if he is credited with the required number of Hours of Service. For that portion of such computation period ending on the date he became an Eligible Employee (for the first day of such computation period if he became an Eligible Employee on the first day of such computation period), the Employee will be credited with the greater of (i) his actual Hours of Service or (ii) the number of Hours of Service that is equivalent to the fractional part of a year of elapsed time service credited as of the date he became an Eligible Employee, if any. In determining the equivalent Hours of Service, the Employee shall be credited with 190 Hours of Service for each month and any fractional part of a month in such fractional part of a year. The number of months and any fractional part of a month shall be determined by multiplying the fractional part of a year, expressed as a decimal, by 12. For the remaining portion of such computation period (the period beginning on the second day of such computation period and ending on the last day of such computation period if he became an Eligible Employee on the first day of such computation period), the Employee will be credited with his actual Hours of Service.
- (3) The Employee's service determined under this Plan using the hours method after the end of the computation period in which he became an Eligible Employee.

If an Employee has been a participant in another plan of the Employer that credited service under the hours method for any purpose that under this Plan is determined using the elapsed time method, then the Employee's service shall be equal to the sum of (4), (5), and (6) below:

- (4) The number of whole years of service credited to the Employee under the other plan as of the beginning of the computation period under that plan in which he became an Eligible Employee under this Plan.
- (5) The greater of (i) the service that would be credited to the Employee for that entire computation period using the elapsed time method or (ii) the service credited to him under the other plan as of the date he became an Eligible Employee under this Plan.
- (6) The Employee's service determined under this Plan using the elapsed time method after the end of the applicable computation period under the other plan in which he became an Eligible Employee.

If an Employee has been a participant in a Controlled Group member's plan that credited service under a different method than is used in this Plan, in order to determine entry and vesting, the provisions in (b) above shall apply as though the Controlled Group member's plan was a plan of the Employer.

### **Section 10.14--MILITARY SERVICE.**

Notwithstanding any provision of this Plan to the contrary, the Plan shall provide contributions, benefits, and service credit with respect to Qualified Military Service in accordance with Code Section 414(u). Loan repayments may be suspended under this Plan as permitted under Code Section 414(u).

A Participant who dies while performing Qualified Military Service is treated as having resumed and then terminated employment on account of death, in accordance with Code Section 401 (a)(37) and any subsequent guidance. The survivors of such Participant are entitled to any additional benefits provided under the Plan on account of death of the Participant.

## **ARTICLE XI**

### **TOP-HEAVY PLAN REQUIREMENTS**

#### **Section 11.01--APPLICATION.**

The provisions of this article shall supersede all other provisions in the Plan to the contrary.

For the purpose of applying the Top-heavy Plan requirements of this article, all members of the Controlled Group shall be treated as one Employer. The term Employer, as used in this article, shall be deemed to include all members of the Controlled Group, unless the term as used clearly indicates only the Employer is meant.

The accrued benefit or account of a participant resulting from deductible employee contributions shall not be included for any purpose under this article.

The minimum contribution provisions of Section 11.03 shall not apply to any Employee who is included in a group of Employees covered by a collective bargaining agreement that the Secretary of Labor finds to be a collective bargaining agreement between employee representatives and one or more employers, including the Employer, if there is evidence that retirement benefits were the subject of good faith bargaining between such representatives. For this purpose, the term "employee representatives" does not include any organization more than half of whose members are employees who are owners, officers, or executives.

## **Section 11.02--DEFINITIONS.**

For purposes of this article the following terms are defined:

**Aggregation Group** means:

- (a) each of the Employer's qualified plans in which a Key Employee is a participant during the Plan Year containing the Determination Date or any of the four preceding Plan Years (regardless of whether the plans have terminated),
- (b) each of the Employer's other qualified plans which allows the plan(s) described in (a) above to meet the nondiscrimination requirement of Code Section 401(a)(4) or the minimum coverage requirement of Code Section 410, and
- (c) any of the Employer's other qualified plans not included in (a) or (b) above which the Employer desires to include as part of the Aggregation Group. Such a qualified plan shall be included only if the Aggregation Group would continue to satisfy the requirements of Code Sections 401(a)(4) and 410.

The plans in (a) and (b) above constitute the "required" Aggregation Group. The plans in (a), (b), and (c) above constitute the "permissive" Aggregation Group.

**Compensation** means compensation as defined in Section 3.07.

**Determination Date** means as to any plan, for any plan year subsequent to the first plan year, the last day of the preceding plan year. For the first plan year of the plan, the Determination Date is the last day of that year.

**Key Employee** means any Employee or former Employee (including any deceased Employee) who at any time during the Plan Year that includes the Determination Date is:

- (a) officer of the Employer having Compensation for the Plan Year greater than \$185,000 (as adjusted under Code Section 416(i)(1)),
- (b) a 5-percent owner of the Employer, or
- (c) a 1-percent owner of the Employer having Compensation for the Plan Year of more than \$150,000.

The determination of who is a Key Employee shall be made according to Code Section 416(i)(1) and the applicable regulations and other guidance of general applicability issued thereunder.

**Nonkey Employee** means any Employee who is not a Key Employee.

**Top-heavy Plan** means a plan that is top-heavy for any plan year. This Plan shall be top-heavy if any of the following conditions exist:

- (a) The Top-heavy Ratio for this Plan exceeds 60 percent and this Plan is not part of any required Aggregation Group or permissive Aggregation Group.
- (b) This Plan is a part of a required Aggregation Group, but not part of a permissive Aggregation Group, and the Top-heavy Ratio for the required Aggregation Group exceeds 60 percent.
- (c) This Plan is a part of a required Aggregation Group and part of a permissive Aggregation Group and the Top-heavy Ratio for the permissive Aggregation Group exceeds 60 percent.

**Top-heavy Ratio** means:

- (a) If the Employer maintains one or more defined contribution plans (including any simplified employee pension plan) and the Employer has not maintained any defined benefit plan that during the five-year period ending on the Determination Date(s) has or has had accrued benefits, the Top-heavy Ratio for this Plan alone or for the required or permissive Aggregation Group, as appropriate, is a fraction, the numerator of which is the sum of the account balances of all Key Employees as of the Determination Date(s) (including any part of any account balance distributed in the one-year period ending on the Determination Date(s) and distributions under a terminated plan which if it had not been terminated would have been required to be included in the Aggregation Group), and the denominator of which is the sum of all account balances (including any part of any account balance distributed in the one-year period ending on the Determination Date(s) and distributions under a terminated plan which if it had not been terminated would have been required to be included in the Aggregation Group), both computed in accordance with Code Section 416 and the regulations thereunder. In the case of a distribution made for a reason other than Severance from Employment, death, or disability, this provision shall be applied by substituting "five-year period" for "one-year period." Both the numerator and denominator of the Top-heavy Ratio are increased to reflect any contribution not actually made as of the

Determination Date, but which is required to be taken into account on that date under Code Section 416 and the regulations thereunder.

- (b) If the Employer maintains one or more defined contribution plans (including any simplified employee pension plan) and the Employer maintains or has maintained one or more defined benefit plans that during the five-year period ending on the Determination Date(s) has or has had accrued benefits, the Top-heavy Ratio for any required or permissive Aggregation Group, as appropriate, is a fraction, the numerator of which is the sum of the account balances under the aggregated defined contribution plan or plans of all Key Employees, determined in accordance with paragraph (a) above, and the present value of accrued benefits under the aggregated defined benefit plan or plans for all Key Employees as of the Determination Date(s), and the denominator of which is the sum of the account balances under the aggregated defined contribution plan or plans for all participants, determined in accordance with paragraph (a) above, and the present value of accrued benefits under the defined benefit plan or plans for all participants as of the Determination Date(s), all determined in accordance with Code Section 416 and the regulations thereunder. The accrued benefits under a defined benefit plan in both the



numerator and denominator of the Top-heavy Ratio are increased for any distribution of an accrued benefit made in the one-year period ending on the Determination Date (and distributions under a terminated plan which if it had not been terminated would have been required to be included in the Aggregation Group). In the case of a distribution made for a reason other than Severance from Employment, death, or disability, this provision shall be applied by substituting "five-year period" for "one-year period."

- (c) For purposes of paragraphs (a) and (b) above, the value of account balances and the present value of accrued benefits will be determined as of the most recent Valuation Date that falls within or ends with the 12-month period ending on the Determination Date, except as provided in Code Section 416 and the regulations thereunder for the first and second plan years of a defined benefit plan. The account balances and accrued benefits of a participant (i) who is not a Key Employee but who was a Key Employee in a prior year or (ii) who has not been credited with at least one hour of service with any employer maintaining the plan at any time during the one-year period ending on the Determination Date will be disregarded. The calculation of the Top-heavy Ratio and the extent to which distributions, rollovers, and transfers are taken into account will be made in accordance with Code Section 416 and the regulations thereunder. Deductible employee contributions will not be taken into account for purposes of computing the Top-heavy Ratio. When aggregating plans, the value of account balances and accrued benefits will be calculated with reference to the Determination Dates that fall within the same calendar year.

The accrued benefit of a participant other than a Key Employee shall be determined under (i) the method, if any, that uniformly applies for accrual purposes under all defined benefit plans maintained by the Employer, or (ii) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional rule of Code Section 411 (b)(1)(C).

### **Section 11.03--MODIFICATION OF CONTRIBUTIONS.**

During any Plan Year in which this Plan is a Top-heavy Plan, the Employer shall make a minimum contribution as of the last day of the Plan Year for each Nonkey Employee who is an Employee on the last day of the Plan Year and who was an Active Participant at any time during the Plan Year. A Nonkey Employee is not required to have a minimum number of Hours of Service or minimum amount of Compensation in order to be entitled to this minimum. A Nonkey Employee who fails to be an Active Participant merely because his Compensation is less than a stated amount or merely because of a failure to make mandatory participant contributions or, in the case of a cash or deferred arrangement, elective contributions shall be treated as if he were an Active Participant. The minimum is the lesser of (a) or (b) below:

- (a) 3 percent of such person's Compensation for such Plan Year.
- (b) The "highest percentage" of Compensation for such Plan Year at which the Employer's Contributions are made for or allocated to any Key Employee. The highest percentage shall be determined by dividing the Employer Contributions made for or allocated to each Key Employee during the Plan Year by the amount of his Compensation for such Plan Year, and selecting the greatest quotient (expressed as a percentage). To determine the highest percentage, all of the Employer's defined contribution plans within the Aggregation Group shall be treated as one plan. The minimum shall be the amount in (a) above if this Plan and a defined benefit plan of the Employer are required to be included in the Aggregation Group and this Plan enables the defined benefit plan to meet the requirements of Code Section 401 (a)(4) or 410.

For purposes of (a) and (b) above, Compensation shall be limited by Code Section 401 (a)(17).

If the Employer's contributions and allocations otherwise required under the defined contribution plan(s) are at least equal to the minimum above, no additional contribution shall be required. If the Employer's total contributions and allocations are less than the minimum above, the Employer shall contribute the difference for the Plan Year.

The minimum contribution applies to all of the Employer's defined contribution plans in the aggregate which are Top-heavy Plans. A minimum contribution under a profit sharing plan shall be made without regard to whether or not the Employer has profits.

If a person who is otherwise entitled to a minimum contribution above is also covered under another defined contribution plan of the Employer's which is a Top-heavy Plan during that same Plan Year, any additional contribution required to meet the minimum above shall be provided in this Plan.

If a person who is otherwise entitled to a minimum contribution above is also covered under a defined benefit plan of the Employer's that is within the Aggregation Group and this Plan is a Top-heavy Plan during that same Plan Year, the minimum benefits for him shall not be duplicated. The defined benefit plan shall provide an annual benefit for him on, or adjusted to, a straight life basis equal to the lesser of:

- (c) 2 percent of his average compensation multiplied by his years of service, or
- (d) 20 percent of his average compensation.

Average compensation and years of service shall have the meaning set forth in such defined benefit plan for this purpose.

For purposes of this section, any employer contribution made according to a salary reduction or similar arrangement shall not apply in determining if the minimum contribution requirement has been met, but shall apply in determining the minimum contribution required. Matching contributions, as defined in Code Section 401(m), shall be taken into account for purposes of satisfying the minimum contribution requirements of Code Section 416(c)(2) and the Plan. Matching contributions that are used to satisfy the minimum contribution requirements shall be treated as matching contributions for purposes of the actual contribution percentage test and other requirements of Code Section 401(m).

The requirements of this section shall be met without regard to any Social Security contribution.

By executing this Plan, the Primary Employer acknowledges having counseled to the extent necessary with selected legal and tax advisors regarding the Plan's legal and tax implications.

Executed this \_\_\_\_\_ day of \_\_\_\_\_, 2020.

INVESTAR HOLDING CORPORATION

By: \_\_\_\_\_  
\_\_\_\_\_  
Title

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-199692) pertaining to the 2014 Long-Term Incentive Compensation Plan of Investar Holding Corporation,
- (2) Registration Statement (Form S-8 No. 333-201880) pertaining to the 401(k) Plan of Investar Holding Corporation,
- (3) Registration Statement (Form S-8 No. 333-218231) pertaining to 2017 Long-Term Incentive Compensation Plan of Investar Holding Corporation'
- (4) Registration Statement (Form S-3 No. 333-215238),
- (5) Registration Statement (Form S-3MEF No. 333-216851),
- (6) Registration Statement (Form S-4 No. 333-228621),
- (7) Registration Statement (Form S-3 No. 333-236315), and
- (8) Registration Statement (Form S-3 No. 333-249912)

of our report dated March 13, 2020, with respect to the consolidated financial statements of Investar Holding Corporation as of December 31, 2019 and for the years ended December 31, 2019 and 2018 included in this Annual Report (Form 10-K) for the year ended December 31, 2020.

/s/ Ernst & Young LLP

New Orleans, Louisiana  
March 10, 2021

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-199692) pertaining to the 2014 Long-Term Incentive Compensation Plan of Investar Holding Corporation,
2. Registration Statement (Form S-8 No. 333-201880) pertaining to the 401(k) Plan of Investar Holding Corporation,
3. Registration Statement (Form S-8 No. 333-218231) pertaining to 2017 Long-Term Incentive Compensation Plan of Investar Holding Corporation'
4. Registration Statement (Form S-3 No. 333-215238),
5. Registration Statement (Form S-3MEF No. 333-216851),
6. Registration Statement (Form S-4 No. 333-228621),
7. Registration Statement (Form S-3 No. 333-236315), and
8. Registration Statement (Form S-3 No. 333-249912)

of Investar Holding Corporation (the "Company") and any related Prospectus of our reports dated March 10, 2021, related to our audit of the consolidated financial statements and the effectiveness of internal control over financial reporting of the Company included in this Annual Report on Form 10-K for the year ended December 31, 2020.

/s/ HORNE LLP

Baton Rouge, Louisiana  
March 10, 2021

**CERTIFICATIONS**

**SECTION 302 CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER**

I, John J. D'Angelo, President and Chief Executive Officer of Investar Holding Corporation, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2020 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: March 10, 2021

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

**CERTIFICATIONS**

**SECTION 302 CERTIFICATION OF THE CHIEF FINANCIAL OFFICER**

I, Christopher L. Hufft, Chief Financial Officer of Investar Holding Corporation, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2020 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: March 10, 2021

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

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

In connection with the Annual Report on Form 10-K of Investar Holding Corporation (the "Company") for the fiscal year ended December 31, 2020 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 to my knowledge and in my capacity as an officer of the Company, pursuant to 18 U.S.C. 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.

/s/ John J. D'Angelo

John J. D'Angelo

President and Chief Executive Officer

(Principal Executive Officer)

Date: March 10, 2021

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. The information furnished herein shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933.

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

In connection with the Annual Report on Form 10-K of Investar Holding Corporation (the “Company”) for the fiscal year ended December 31, 2020 (the “Report”), I, Christopher L. Hufft, Chief Financial Officer of the Company, certify to my knowledge and in my capacity as an officer of the Company, pursuant to 18 U.S.C. 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.

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

Date: March 10, 2021

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. The information furnished herein shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933.