

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2022

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 Boulevard, Baton Rouge, Louisiana 70816
(Address of principal executive offices, including zip code)
(225) 227-2222

(Registrant's telephone number, including area code)

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

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

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

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

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

Large accelerated filer	<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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the issuer's class of common stock, as of the latest practicable date, is as follows: Common stock, \$1.00 par value, 10,297,118 shares outstanding as of May 2, 2022.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
	(Unaudited)	
ASSETS		
Cash and due from banks	\$ 45,700	\$ 38,601
Interest-bearing balances due from other banks	45,775	57,940
Federal funds sold	130	500
Cash and cash equivalents	<u>91,605</u>	<u>97,041</u>
Available for sale securities at fair value (amortized cost of \$436,759 and \$356,639, respectively)	413,777	355,509
Held to maturity securities at amortized cost (estimated fair value of \$9,900 and \$10,727, respectively)	9,926	10,255
Loans held for sale	—	620
Loans, net of allowance for loan losses of \$21,088 and \$20,859, respectively	1,856,356	1,851,153
Equity securities	17,904	16,803
Bank premises and equipment, net of accumulated depreciation of \$20,016 and \$19,149, respectively	55,204	58,080
Other real estate owned, net	3,454	2,653
Accrued interest receivable	11,168	11,355
Deferred tax asset	6,600	2,239
Goodwill and other intangible assets, net	43,804	44,036
Bank owned life insurance	51,366	51,074
Other assets	11,544	12,385
Total assets	<u>\$ 2,572,708</u>	<u>\$ 2,513,203</u>
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 614,416	\$ 585,465
Interest-bearing	1,571,588	1,534,801
Total deposits	<u>2,186,004</u>	<u>2,120,266</u>
Advances from Federal Home Loan Bank	78,500	78,500
Repurchase agreements	1,305	5,783
Subordinated debt, net of unamortized issuance costs	43,012	42,989
Junior subordinated debt	8,420	8,384
Accrued taxes and other liabilities	21,810	14,683
Total liabilities	<u>2,339,051</u>	<u>2,270,605</u>
STOCKHOLDERS' EQUITY		
Preferred stock, no par value per share; 5,000,000 shares authorized	—	—
Common stock, \$1.00 par value per share; 40,000,000 shares authorized; 10,310,212 and 10,343,494 shares issued and outstanding, respectively	10,310	10,343
Surplus	153,531	154,932
Retained earnings	85,387	76,160
Accumulated other comprehensive (loss) income	(15,571)	1,163
Total stockholders' equity	<u>233,657</u>	<u>242,598</u>
Total liabilities and stockholders' equity	<u>\$ 2,572,708</u>	<u>\$ 2,513,203</u>

See accompanying notes to the consolidated financial statements.

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

	Three months ended March 31,	
	2022	2021
INTEREST INCOME		
Interest and fees on loans	\$ 21,726	\$ 21,627
Interest on investment securities	1,955	1,179
Other interest income	186	163
Total interest income	<u>23,867</u>	<u>22,969</u>
INTEREST EXPENSE		
Interest on deposits	976	2,302
Interest on borrowings	1,070	1,033
Total interest expense	<u>2,046</u>	<u>3,335</u>
Net interest income	21,821	19,634
Provision for loan losses	(449)	400
Net interest income after provision for loan losses	<u>22,270</u>	<u>19,234</u>
NONINTEREST INCOME		
Service charges on deposit accounts	667	491
Gain on call or sale of investment securities, net	6	600
Gain (loss) on sale or disposition of fixed assets, net	373	(2)
Gain on sale of other real estate owned, net	41	—
Swap termination fee income	3,344	—
Gain on sale of loans	33	—
Servicing fees and fee income on serviced loans	21	64
Interchange fees	498	388
Income from bank owned life insurance	292	223
Change in the fair value of equity securities	11	65
Other operating income	580	536
Total noninterest income	<u>5,866</u>	<u>2,365</u>
Income before noninterest expense	28,136	21,599
NONINTEREST EXPENSE		
Depreciation and amortization	1,155	1,206
Salaries and employee benefits	9,021	8,695
Occupancy	641	637
Data processing	1,006	746
Marketing	21	41
Professional fees	379	358
Acquisition expense	—	361
Other operating expenses	3,210	2,765
Total noninterest expense	<u>15,433</u>	<u>14,809</u>
Income before income tax expense	12,703	6,790
Income tax expense	2,600	1,430
Net income	<u>\$ 10,103</u>	<u>\$ 5,360</u>
EARNINGS PER SHARE		
Basic earnings per share	\$ 0.98	\$ 0.51
Diluted earnings per share	0.97	0.51
Cash dividends declared per common share	0.085	0.07

See accompanying notes to the consolidated financial statements.

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

	Three months ended March 31,	
	2022	2021
Net income	\$ 10,103	\$ 5,360
Other comprehensive (loss) income:		
Unrealized loss on investment securities:		
Unrealized loss, available for sale, net of tax benefit of \$4,587 and \$372, respectively	(17,259)	(1,401)
Reclassification of realized gain, available for sale, net of tax expense of \$1 and \$126, respectively	(5)	(474)
Fair value of derivative financial instruments:		
Change in fair value of interest rate swaps designated as a cash flow hedge, net of tax expense of \$843 and \$1,612, respectively	3,172	6,065
Reclassification of realized gain, interest rate swap termination, net of tax expense of \$702 and \$0, respectively	(2,642)	—
Total other comprehensive (loss) income	(16,734)	4,190
Total comprehensive (loss) income	\$ (6,631)	\$ 9,550

See accompanying notes to the consolidated financial statements.

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

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Three months ended:					
March 31, 2021					
Balance at beginning of period	\$ 10,609	\$ 159,485	\$ 71,385	\$ 1,805	\$ 243,284
Surrendered shares	(19)	(337)	—	—	(356)
Options exercised	8	107	—	—	115
Dividends declared, \$0.07 per share	—	—	(747)	—	(747)
Stock-based compensation	64	336	—	—	400
Shares repurchased	(226)	(3,769)	—	—	(3,995)
Net income	—	—	5,360	—	5,360
Other comprehensive income, net	—	—	—	4,190	4,190
Balance at end of period	<u>\$ 10,436</u>	<u>\$ 155,822</u>	<u>\$ 75,998</u>	<u>\$ 5,995</u>	<u>\$ 248,251</u>
March 31, 2022					
Balance at beginning of period	\$ 10,343	\$ 154,932	\$ 76,160	\$ 1,163	\$ 242,598
Surrendered shares	(14)	(258)	—	—	(272)
Dividends declared, \$0.085 per share	—	—	(876)	—	(876)
Stock-based compensation	58	324	—	—	382
Shares repurchased	(77)	(1,467)	—	—	(1,544)
Net income	—	—	10,103	—	10,103
Other comprehensive loss, net	—	—	—	(16,734)	(16,734)
Balance at end of period	<u>\$ 10,310</u>	<u>\$ 153,531</u>	<u>\$ 85,387</u>	<u>\$ (15,571)</u>	<u>\$ 233,657</u>

See accompanying notes to the consolidated financial statements.

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

	Three months ended March 31,	
	2022	2021
Net income	\$ 10,103	\$ 5,360
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,155	1,206
Provision for loan losses	(449)	400
Amortization of purchase accounting adjustments	(63)	(140)
Net amortization of securities	449	919
Gain on call or sale of investment securities, net	(6)	(600)
(Gain) loss on sale or disposition of fixed assets, net	(373)	2
Gain on sale of other real estate owned, net	(41)	—
FHLB stock dividend	(9)	(11)
Stock-based compensation	382	400
Deferred taxes	87	367
Net change in value of bank owned life insurance	(292)	(223)
Amortization of subordinated debt issuance costs	23	23
Change in the fair value of equity securities	(11)	(65)
Loans held for sale:		
Originations	(624)	—
Proceeds from sales	1,277	—
Gain on sale of loans	(33)	—
Net change in:		
Accrued interest receivable	186	101
Other assets	1,636	933
Accrued taxes and other liabilities	6,814	782
Net cash provided by operating activities	20,211	9,454
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	—	17,123
Purchases of securities available for sale	(103,011)	(74,334)
Proceeds from maturities, prepayments and calls of investment securities available for sale	17,453	21,505
Proceeds from maturities, prepayments and calls of investment securities held to maturity	323	458
Proceeds from redemption or sale of equity securities	213	435
Purchases of equity securities	(1,293)	(523)
Net (increase) decrease in loans	(1,166)	13,789
Proceeds from sales of other real estate owned	859	—
Purchases of other real estate owned	—	(501)
Proceeds from sales of fixed assets	2,510	—
Purchases of fixed assets	(317)	(1,429)
Distributions from investments	3	—
Net cash used in investing activities	(84,426)	(23,477)

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

Cash flows from financing activities:		
Net increase in customer deposits	65,630	122,074
Net decrease in repurchase agreements	(4,478)	(1,379)
Net decrease in short-term FHLB advances	—	(38,000)
Cash dividends paid on common stock	(829)	(693)
Proceeds from stock options exercised	—	115
Payments to repurchase common stock	(1,544)	(3,995)
Net cash provided by financing activities	<u>58,779</u>	<u>78,122</u>
Net change in cash and cash equivalents	(5,436)	64,099
Cash and cash equivalents, beginning of period	97,041	35,368
Cash and cash equivalents, end of period	<u>\$ 91,605</u>	<u>\$ 99,467</u>

See accompanying notes to the consolidated financial statements.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements of Investar Holding Corporation (the “Company”) have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include information or footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with GAAP. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the three month period ended March 31, 2022 are not necessarily indicative of the results that may be expected for the entire fiscal year. These statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2021, including the notes thereto, which were included as part of the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 9, 2022.

Nature of Operations

The Company, headquartered in Baton Rouge, Louisiana, provides full banking services, excluding trust services, through its wholly-owned banking subsidiary, Investar Bank, National Association (the “Bank”), a national bank, primarily to meet the needs of individuals, professionals and small to medium-sized businesses. The Company’s primary markets are in Louisiana, Texas and Alabama. At March 31, 2022, the Company operated 23 full service branches located in Louisiana, four full service branches located in Texas and six full service branches located in Alabama, and had 336 employees.

Principles of Consolidation

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

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions, changes in conditions of our borrowers' industries or changes in the condition of individual borrowers. 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.

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

Investment Securities

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

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

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

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

Equity Securities

The Company is a member of the Federal Home Loan Bank ("FHLB") system. Members of the FHLB are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, is restricted as to redemption, and is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. Equity securities also include investments in our other correspondent banks including Independent Bankers Financial Corporation and First National Bankers Bank stock. These investments are carried at cost which approximates fair value. The balance of equity securities in our correspondent banks at March 31, 2022 and December 31, 2021 was \$16.3 million and \$15.0 million, respectively.

In addition, equity securities include marketable securities in corporate stocks and mutual funds. The estimated fair value of equity securities totaled \$1.6 million and \$1.8 million at March 31, 2022 and December 31, 2021, respectively.

Loans

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

Loans for which management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off are stated at unpaid principal balances, adjusted by an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. 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.

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

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

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

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. For loans carried at the lower of cost or fair value, gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan. At March 31, 2022, there were no loans held for sale, and at December 31, 2021, there were \$0.6 million in loans held for sale.

Allowance for Loan Losses

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

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

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

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 accrued taxes and other liabilities in the consolidated balance sheet. The reserve for unfunded loan commitments was \$0.7 million at both March 31, 2022 and December 31, 2021.

Acquisition Accounting

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

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

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

Reclassifications

Certain reclassifications have been made to the 2021 financial statements to be consistent with the 2022 presentation, if applicable.

Concentrations of Credit Risk

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

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Accounting Pronouncements Not Yet Adopted

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

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 has been effective since 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.

FASB ASC Topic 326 “Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures” Update No. 2022-02. The FASB issued ASU No. 2022-02 in March 2022. The ASU eliminates the accounting guidance for TDRs and, instead, requires that an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendment also requires that public business entities disclose current-period gross charge-offs by year of origination for financing receivables and net investments in leases. The guidance is effective for entities that have adopted ASU 2016-13 for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. These amendments should be applied prospectively. ASU 2016-13 will be effective for the Company on January 1, 2023. 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***Cheaha Financial Group, Inc.***

On April 1, 2021, the Company completed the acquisition of Cheaha Financial Group, Inc. (“Cheaha”) and its wholly-owned subsidiary, Cheaha Bank, in Oxford, Alabama for an aggregate cash consideration of approximately \$41.1 million. After fair value adjustments, the acquisition added \$240.8 million in total assets, including \$120.4 million in loans, and \$207.0 million in deposits. As consideration paid was in excess of the net fair value of acquired assets, the Company recorded \$11.9 million of goodwill. Goodwill resulted from a combination of synergies and cost savings, and further expansion into Alabama with the addition of four branch locations.

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

Purchase price:	
Cash paid	\$ 41,067
Fair value of assets acquired:	
Cash and cash equivalents	49,179
Investment securities	60,938
Loans	120,395
Bank premises and equipment	5,407
Core deposit intangible asset	848
Bank owned life insurance	3,023
Other assets	1,012
Total assets acquired	<u>240,802</u>
Fair value of liabilities acquired:	
Deposits	206,986
Notes payable	2,327
Other liabilities	2,366
Total liabilities assumed	<u>211,679</u>
Fair value of net assets acquired	<u>29,123</u>
Goodwill	<u>\$ 11,944</u>

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 Cheaha total \$134.8 million. Loans acquired from Cheaha that are considered to be purchased credit impaired loans had a balance of \$0.2 million at the time of acquisition. The contractually required principal and interest payments of these loans total \$0.2 million, of which \$0.1 million is not expected to be collected.

Acquisition Expense

There were no acquisition expenses recorded in the three months ended March 31, 2022. Acquisition related costs of \$0.4 million are included in acquisition expense in the accompanying consolidated statements of income for the three months ended March 31, 2021 and are related to the acquisition of Cheaha.

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NOTE 3. EARNINGS PER SHARE

The following is a summary of the information used in the computation of basic and diluted earnings per share for the three months ended March 31, 2022 and 2021 (in thousands, except share data).

	Three months ended March 31,	
	2022	2021
Earnings per common share - basic		
Net income	\$ 10,103	\$ 5,360
Less: income allocated to participating securities	(16)	(20)
Net income allocated to common shareholders	10,087	5,340
Weighted average basic shares outstanding	10,335,334	10,509,468
Basic earnings per common share	\$ 0.98	\$ 0.51
Earnings per common share - diluted		
Net income allocated to common shareholders	\$ 10,087	\$ 5,340
Weighted average basic shares outstanding	10,335,334	10,509,468
Dilutive effect of securities	70,449	57,705
Total weighted average diluted shares outstanding	10,405,783	10,567,173
Diluted earnings per common share	\$ 0.97	\$ 0.51

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

	Three months ended March 31,	
	2022	2021
Restricted stock awards	11	209
Restricted stock units	3,328	8,242

NOTE 4. INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2022				
Obligations of U.S. government agencies and corporations	\$ 20,687	\$ 102	\$ (129)	\$ 20,660
Obligations of state and political subdivisions	27,871	30	(1,001)	26,900
Corporate bonds	26,475	61	(1,379)	25,157
Residential mortgage-backed securities	282,726	132	(17,563)	265,295
Commercial mortgage-backed securities	79,000	179	(3,414)	75,765
Total	\$ 436,759	\$ 504	\$ (23,486)	\$ 413,777

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Obligations of U.S. government agencies and corporations	\$ 21,143	\$ 152	\$ (27)	\$ 21,268
Obligations of state and political subdivisions	32,330	468	(213)	32,585
Corporate bonds	27,777	235	(345)	27,667
Residential mortgage-backed securities	200,696	711	(1,503)	199,904
Commercial mortgage-backed securities	74,693	369	(977)	74,085
Total	<u>\$ 356,639</u>	<u>\$ 1,935</u>	<u>\$ (3,065)</u>	<u>\$ 355,509</u>

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

	Three months ended March 31,	
	2022	2021
Proceeds from sale	\$ —	\$ 17,123
Gross gains	\$ —	\$ 602
Gross losses	\$ —	\$ (2)

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2022				
Obligations of state and political subdivisions	\$ 6,786	\$ 15	\$ —	\$ 6,801
Residential mortgage-backed securities	3,140	—	(41)	3,099
Total	<u>\$ 9,926</u>	<u>\$ 15</u>	<u>\$ (41)</u>	<u>\$ 9,900</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Obligations of state and political subdivisions	\$ 6,910	\$ 367	\$ —	\$ 7,277
Residential mortgage-backed securities	3,345	105	—	3,450
Total	<u>\$ 10,255</u>	<u>\$ 472</u>	<u>\$ —</u>	<u>\$ 10,727</u>

Securities are classified in the consolidated balance sheets according to management's intent. The Company had no securities classified as trading as of March 31, 2022 or December 31, 2021.

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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 (amounts in thousands, except number of securities).

	Count	Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2022							
Obligations of U.S. government agencies and corporations	15	\$ 3,948	\$ (112)	\$ 1,445	\$ (17)	\$ 5,393	\$ (129)
Obligations of state and political subdivisions	26	10,140	(949)	683	(52)	10,823	(1,001)
Corporate bonds	45	18,377	(1,112)	2,233	(267)	20,610	(1,379)
Residential mortgage-backed securities	409	237,279	(16,491)	10,984	(1,072)	248,263	(17,563)
Commercial mortgage-backed securities	89	46,836	(3,012)	11,797	(402)	58,633	(3,414)
Total	584	\$ 316,580	\$ (21,676)	\$ 27,142	\$ (1,810)	\$ 343,722	\$ (23,486)

	Count	Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2021							
Obligations of U.S. government agencies and corporations	8	\$ 1,438	\$ (25)	\$ 668	\$ (2)	\$ 2,106	\$ (27)
Obligations of state and political subdivisions	12	10,803	(213)	—	—	10,803	(213)
Corporate bonds	22	10,197	(254)	2,409	(91)	12,606	(345)
Residential mortgage-backed securities	150	156,862	(1,503)	—	—	156,862	(1,503)
Commercial mortgage-backed securities	64	44,055	(941)	6,284	(36)	50,339	(977)
Total	256	\$ 223,355	\$ (2,936)	\$ 9,361	\$ (129)	\$ 232,716	\$ (3,065)

The number of HTM securities, fair value, and unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized below as of March 31, 2022 (amounts in thousands, except number of securities). There were no HTM securities in a continuous loss position as of December 31, 2021.

	Count	Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2022							
Residential mortgage-backed securities	8	\$ 3,043	\$ (41)	\$ —	\$ —	\$ 3,043	\$ (41)
Total	8	\$ 3,043	\$ (41)	\$ —	\$ —	\$ 3,043	\$ (41)

Unrealized losses are generally due to changes in interest rates. The Company has the intent to hold these securities either until maturity or a forecasted recovery, and it is more likely than not that the Company will not have to sell the securities before the recovery of their amortized cost basis. Due to the nature of the investment, current market prices, and the current interest rate environment, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2022 or December 31, 2021.

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

	Securities Available For Sale		Securities Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
March 31, 2022				
Due within one year	\$ 280	\$ 282	\$ 870	\$ 872
Due after one year through five years	13,462	13,293	1,875	1,881
Due after five years through ten years	48,009	46,880	4,041	4,048
Due after ten years	375,008	353,322	3,140	3,099
Total debt securities	\$ 436,759	\$ 413,777	\$ 9,926	\$ 9,900

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	Securities Available For Sale		Securities Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
December 31, 2021				
Due within one year	\$ 726	\$ 726	\$ 870	\$ 902
Due after one year through five years	14,189	14,327	1,875	2,018
Due after five years through ten years	51,988	52,376	4,165	4,356
Due after ten years	289,736	288,080	3,345	3,451
Total debt securities	<u>\$ 356,639</u>	<u>\$ 355,509</u>	<u>\$ 10,255</u>	<u>\$ 10,727</u>

At March 31, 2022, securities with a carrying value of \$158.9 million were pledged to secure certain deposits, borrowings, and other liabilities, compared to \$118.2 million in pledged securities at December 31, 2021.

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	March 31, 2022	December 31, 2021
Construction and development	\$ 201,222	\$ 203,204
1-4 Family	367,520	364,307
Multifamily	52,500	59,570
Farmland	18,296	20,128
Commercial real estate	908,210	896,377
Total mortgage loans on real estate	<u>1,547,748</u>	<u>1,543,586</u>
Commercial and industrial	314,093	310,831
Consumer	15,603	17,595
Total loans	<u>\$ 1,877,444</u>	<u>\$ 1,872,012</u>

Unamortized premiums and discounts on loans, included in the total loans balances above, were \$1.1 million and \$1.9 million at March 31, 2022 and December 31, 2021, respectively, and unearned income, or deferred fees, on loans was \$1.5 million and \$1.8 million at March 31, 2022 and December 31, 2021, respectively and is also included in the total loans balance in the table above.

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The table below provides an analysis of the aging of loans, excluding loans held for sale, as of the dates presented (dollars in thousands).

March 31, 2022								
Accruing								
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Past Due & Nonaccrual	Acquired Impaired Loans	Total Loans
Construction and development	\$ 200,950	\$ —	\$ —	\$ —	\$ 272	\$ 272	\$ —	\$ 201,222
1-4 Family	361,695	4,867	83	—	548	5,498	327	367,520
Multifamily	52,500	—	—	—	—	—	—	52,500
Farmland	17,545	20	—	—	74	94	657	18,296
Commercial real estate	894,782	82	170	—	12,540	12,792	636	908,210
Total mortgage loans on real estate	1,527,472	4,969	253	—	13,434	18,656	1,620	1,547,748
Commercial and industrial	302,895	239	114	47	10,798	11,198	—	314,093
Consumer	15,170	132	54	—	186	372	61	15,603
Total loans	\$ 1,845,537	\$ 5,340	\$ 421	\$ 47	\$ 24,418	\$ 30,226	\$ 1,681	\$ 1,877,444

December 31, 2021								
Accruing								
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total Past Due & Nonaccrual	Acquired Impaired Loans	Total Loans
Construction and development	\$ 202,850	\$ 55	\$ 11	\$ —	\$ 288	\$ 354	\$ —	\$ 203,204
1-4 Family	360,434	1,933	182	—	1,410	3,525	348	364,307
Multifamily	59,570	—	—	—	—	—	—	59,570
Farmland	18,348	—	—	—	79	79	1,701	20,128
Commercial real estate	881,575	170	86	—	13,910	14,166	636	896,377
Total mortgage loans on real estate	1,522,777	2,158	279	—	15,687	18,124	2,685	1,543,586
Commercial and industrial	295,323	4,044	57	53	11,354	15,508	—	310,831
Consumer	17,238	89	18	—	186	293	64	17,595
Total loans	\$ 1,835,338	\$ 6,291	\$ 354	\$ 53	\$ 27,227	\$ 33,925	\$ 2,749	\$ 1,872,012

Nonaccrual and Past Due Loans

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

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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. The acquired impaired loans had no accretible yield recorded for the three months ended March 31, 2022 and 2021.

Portfolio Segment Risk Factors

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

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

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

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

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

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

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

In the second quarter of 2020, the Bank began participating as a lender in the Small Business Administration's ("SBA") and U.S. Department of Treasury's Paycheck Protection Program ("PPP") as established by the CARES Act and enhanced by the Paycheck Protection Program and Health Care Enhancement Act and the Paycheck Protection Program Flexibility Act of 2020 ("Flexibility Act"). The PPP was established to provide unsecured low interest rate loans to small businesses that have been impacted by the COVID-19 pandemic. The PPP loans are 100% guaranteed by the SBA. The loans have a fixed interest rate of 1% with deferred payments, and if originated before June 5, 2020, mature two years from origination, or if made on or after June 5, 2020, five years from origination. PPP loans are forgiven by the SBA (which makes forgiveness payments directly to the lender) to the extent the borrower uses the proceeds of the loan for certain purposes (primarily to fund payroll costs) during a certain time period following origination and maintains certain employee and compensation levels. Lenders receive processing fees from the SBA for originating the PPP loans which are based on a percentage of the loan amount. In July 2020, the CARES Act was amended to extend the SBA's authority to make commitments under the PPP, which had previously expired on June 30, 2020. The PPP resumed taking applications on July 6, 2020, and the new deadline to apply for a PPP loan ended on August 8, 2020. On December 27, 2020, the CAA, a \$900 billion aid package, was enacted that renewed the PPP and allocated additional funding for new first time PPP loans under the original PPP and also authorized second draw PPP loans for certain eligible borrowers that had previously received a PPP loan. The application period for the renewed PPP lasted from January 1, 2021 to May 31, 2021. At March 31, 2022 and December 31, 2021 the Company's loan portfolio included PPP loans with balances of \$13.2 million and \$23.3 million, respectively, all of which are included in commercial and industrial loans.

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

Credit Quality Indicators

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

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

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

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

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

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

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

	March 31, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and development	\$ 198,808	\$ 812	\$ 1,602	\$ —	\$ 201,222
1-4 Family	362,187	—	5,333	—	367,520
Multifamily	52,040	—	460	—	52,500
Farmland	17,564	—	732	—	18,296
Commercial real estate	888,686	3,838	15,686	—	908,210
Total mortgage loans on real estate	1,519,285	4,650	23,813	—	1,547,748
Commercial and industrial	299,985	1,079	12,542	487	314,093
Consumer	15,312	18	273	—	15,603
Total loans	<u>\$ 1,834,582</u>	<u>\$ 5,747</u>	<u>\$ 36,628</u>	<u>\$ 487</u>	<u>\$ 1,877,444</u>

	December 31, 2021				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and development	\$ 200,788	\$ 818	\$ 1,598	\$ —	\$ 203,204
1-4 Family	358,062	38	6,207	—	364,307
Multifamily	59,113	—	457	—	59,570
Farmland	18,348	—	1,780	—	20,128
Commercial real estate	872,951	3,891	19,535	—	896,377
Total mortgage loans on real estate	1,509,262	4,747	29,577	—	1,543,586
Commercial and industrial	290,677	2,523	16,941	690	310,831
Consumer	17,269	19	307	—	17,595
Total loans	<u>\$ 1,817,208</u>	<u>\$ 7,289</u>	<u>\$ 46,825</u>	<u>\$ 690</u>	<u>\$ 1,872,012</u>

The Company had no loans that were classified as loss at March 31, 2022 or December 31, 2021.

Loan Participations and Sold Loans

Loan participations and whole loans sold to and serviced for others are not included in the accompanying consolidated balance sheets. The balance of the participations and whole loans sold were \$28.0 million and \$33.0 million at March 31, 2022 and December 31, 2021, respectively. The unpaid principal balance of these loans was approximately \$85.8 million and \$91.9 million at March 31, 2022 and December 31, 2021, respectively.

Loans to Related Parties

In the ordinary course of business, the Company makes loans to related parties including its executive officers, principal stockholders, directors and their immediate family members, as well as to companies in which these individuals are principal owners. Loans outstanding to such related party borrowers amounted to approximately \$101.1 million and \$97.6 million as of March 31, 2022 and December 31, 2021, respectively.

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

	March 31, 2022	December 31, 2021
Balance, beginning of period	\$ 97,606	\$ 96,390
New loans/changes in relationship	5,371	26,475
Repayments/changes in relationship	(1,874)	(25,259)
Balance, end of period	<u>\$ 101,103</u>	<u>\$ 97,606</u>

Allowance for Loan Losses

The table below shows a summary of the activity in the allowance for loan losses for the three months ended March 31, 2022 and 2021 (dollars in thousands).

	Three months ended March 31,	
	2022	2021
Balance, beginning of period	\$ 20,859	\$ 20,363
Provision for loan losses	(449)	400
Loans charged off	(329)	(405)
Recoveries	1,007	65
Balance, end of period	<u>\$ 21,088</u>	<u>\$ 20,423</u>

The following tables outline the activity in the allowance for loan losses by collateral type for the three months ended March 31, 2022 and 2021, and show both the allowance and portfolio balances for loans individually and collectively evaluated for impairment as of March 31, 2022 and 2021 (dollars in thousands).

	Three months ended March 31, 2022							
	Construction & Development	1-4 Family	Multifamily	Farmland	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	\$ 2,347	\$ 3,337	\$ 673	\$ 383	\$ 9,354	\$ 4,411	\$ 354	\$ 20,859
Provision	45	(3)	(83)	13	256	(677)	—	(449)
Charge-offs	—	—	—	(54)	58	(286)	(47)	(329)
Recoveries	16	70	—	—	1	908	12	1,007
Ending balance	<u>\$ 2,408</u>	<u>\$ 3,404</u>	<u>\$ 590</u>	<u>\$ 342</u>	<u>\$ 9,669</u>	<u>\$ 4,356</u>	<u>\$ 319</u>	<u>\$ 21,088</u>
Ending allowance balance for loans individually evaluated for impairment	—	—	—	—	—	468	74	542
Ending allowance balance for loans acquired with deteriorated credit quality	—	—	—	156	—	—	—	156
Ending allowance balance for loans collectively evaluated for impairment	2,408	3,404	590	186	9,669	3,888	245	20,390
Loans receivable:								
Balance of loans individually evaluated for impairment	508	996	—	74	12,940	12,518	186	27,222
Balance of loans acquired with deteriorated credit quality	—	327	—	657	636	—	61	1,681
Balance of loans collectively evaluated for impairment	200,714	366,197	52,500	17,565	894,634	301,575	15,356	1,848,541
Total period-end balance	<u>\$ 201,222</u>	<u>\$ 367,520</u>	<u>\$ 52,500</u>	<u>\$ 18,296</u>	<u>\$ 908,210</u>	<u>\$ 314,093</u>	<u>\$ 15,603</u>	<u>\$ 1,877,444</u>

	Three months ended March 31, 2021							
	Construction & Development	1-4 Family	Multifamily	Farmland	Commercial Real Estate	Commercial & Industrial	Consumer	Total
Allowance for loan losses:								
Beginning balance	\$ 2,375	\$ 3,370	\$ 589	\$ 435	\$ 8,496	\$ 4,558	\$ 540	\$ 20,363
Provision	(140)	127	107	(40)	547	(122)	(79)	400
Charge-offs	—	(134)	—	—	—	(215)	(56)	(405)
Recoveries	10	6	—	—	2	5	42	65
Ending balance	<u>\$ 2,245</u>	<u>\$ 3,369</u>	<u>\$ 696</u>	<u>\$ 395</u>	<u>\$ 9,045</u>	<u>\$ 4,226</u>	<u>\$ 447</u>	<u>\$ 20,423</u>
Ending allowance balance for								

loans individually evaluated for impairment	—	—	—	—	175	81	103	359
Ending allowance balance for loans acquired with deteriorated credit quality	—	—	—	210	—	—	—	210
Ending allowance balance for loans collectively evaluated for impairment	2,245	3,369	696	185	8,870	4,145	344	19,854
Loans receivable:								
Balance of loans individually evaluated for impairment	774	1,532	—	302	6,654	8,159	298	17,719
Balance of loans acquired with deteriorated credit quality	—	375	—	1,701	534	—	37	2,647
Balance of loans collectively evaluated for impairment	190,042	339,359	60,844	22,142	822,692	372,375	18,150	1,825,604
Total period-end balance	<u>\$ 190,816</u>	<u>\$ 341,266</u>	<u>\$ 60,844</u>	<u>\$ 24,145</u>	<u>\$ 829,880</u>	<u>\$ 380,534</u>	<u>\$ 18,485</u>	<u>\$ 1,845,970</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 is probable 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 (dollars in thousands).

	March 31, 2022		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
<u>With no related allowance recorded:</u>			
Construction and development	\$ 508	\$ 791	\$ —
1-4 Family	996	1,087	—
Farmland	74	79	—
Commercial real estate	12,940	23,355	—
Total mortgage loans on real estate	14,518	25,312	—
Commercial and industrial	8,593	9,274	—
Consumer	81	94	—
Total	23,192	34,680	—
<u>With related allowance recorded:</u>			
Commercial and industrial	3,925	9,618	468
Consumer	105	137	74
Total	4,030	9,755	542
<u>Total loans:</u>			
Construction and development	508	791	—
1-4 Family	996	1,087	—
Farmland	74	79	—
Commercial real estate	12,940	23,355	—
Total mortgage loans on real estate	14,518	25,312	—
Commercial and industrial	12,518	18,892	468
Consumer	186	231	74
Total	\$ 27,222	\$ 44,435	\$ 542

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	December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Construction and development	\$ 529	\$ 812	\$ —
1-4 Family	1,995	2,081	—
Farmland	79	81	—
Commercial real estate	16,685	27,139	—
Total mortgage loans on real estate	19,288	30,113	—
Commercial and industrial	9,395	10,941	—
Consumer	55	69	—
Total	28,738	41,123	—
With related allowance recorded:			
Commercial and industrial	3,926	9,618	468
Consumer	127	164	96
Total	4,053	9,782	564
Total loans:			
Construction and development	529	812	—
1-4 Family	1,995	2,081	—
Farmland	79	81	—
Commercial real estate	16,685	27,139	—
Total mortgage loans on real estate	19,288	30,113	—
Commercial and industrial	13,321	20,559	468
Consumer	182	233	96
Total	\$ 32,791	\$ 50,905	\$ 564

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

	Three months ended March 31,			
	2022		2021	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Construction and development	\$ 511	\$ 4	\$ 777	\$ 5
1-4 Family	1,013	6	1,541	9
Farmland	75	—	244	—
Commercial real estate	12,806	6	5,370	46
Total mortgage loans on real estate	14,405	16	7,932	60
Commercial and industrial	8,463	26	8,067	42
Consumer	63	—	120	—
Total	22,931	42	16,119	102
With related allowance recorded:				
Commercial real estate	—	—	1,326	—
Total mortgage loans on real estate	—	—	1,326	—
Commercial and industrial	3,926	—	202	—
Consumer	108	—	177	—
Total	4,034	—	1,705	—
Total loans:				
Construction and development	511	4	777	5
1-4 Family	1,013	6	1,541	9
Farmland	75	—	244	—
Commercial real estate	12,806	6	6,696	46
Total mortgage loans on real estate	14,405	16	9,258	60
Commercial and industrial	12,389	26	8,269	42
Consumer	171	—	297	—
Total	\$ 26,965	\$ 42	\$ 17,824	\$ 102

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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. See Note 1. Summary of Significant Accounting Policies for further discussion of our treatment of TDRs in response to guidance from financial regulators.

Loans classified as TDRs, consisted of 24 credits, totaling approximately \$7.4 million at March 31, 2022, compared to 29 credits totaling approximately \$10.5 million at December 31, 2021. At March 31, 2022, eleven of the restructured loans were considered TDRs due to modification of terms through adjustments to maturity, seven of the restructured loans were considered TDRs due to a reduction in the interest rate to a rate lower than the current market rate, four restructured loans were considered TDRs due to principal payment forbearance paying interest only for a specified period of time, and two of the restructured loans were considered TDRs due to principal and interest payment forbearance.

As of March 31, 2022 and December 31, 2021, none of the TDRs were in default of their modified terms and included in nonaccrual loans. The Company individually evaluates each TDR for allowance purposes, primarily based on collateral value, and excludes these loans from the loan population that is collectively evaluated for impairment.

No TDRs defaulted on their modified terms during the three months ended March 31, 2022. There was one loan modified under TDR during the previous twelve month period that subsequently defaulted during the three months ended March 31, 2021.

At March 31, 2022 and December 31, 2021, there were no available balances on loans classified as TDRs that the Company was committed to lend.

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NOTE 6. STOCKHOLDERS' EQUITY*Accumulated Other Comprehensive Income (Loss)*

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

	Three months ended March 31,					
	2022			2021		
	Beginning of Period	Net Change	End of Period	Beginning of Period	Net Change	End of Period
Unrealized gain (loss), available for sale, net	\$ 4,882	\$ (17,259)	\$ (12,377)	\$ 7,493	\$ (1,401)	\$ 6,092
Reclassification of realized gain on investment securities, net	(5,772)	(5)	(5,777)	(3,939)	(474)	(4,413)
Unrealized gain, transfer from available for sale to held to maturity, net	2	—	2	3	—	3
Change in fair value of interest rate swaps designated as cash flow hedges, net	3,501	3,172	6,673	(1,752)	6,065	4,313
Reclassification of realized gain on interest rate swap termination, net	(1,450)	(2,642)	(4,092)	—	—	—
Accumulated other comprehensive income (loss)	<u>\$ 1,163</u>	<u>\$ (16,734)</u>	<u>\$ (15,571)</u>	<u>\$ 1,805</u>	<u>\$ 4,190</u>	<u>\$ 5,995</u>

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NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

As part of its liability management, the Company utilizes pay-fixed interest rate swaps to manage exposure against the variability in the expected future cash flows (future interest payments) attributable to changes in the 1-month LIBOR associated with the forecasted issuances of 1-month fixed rate debt arising from a rollover strategy. The maximum length of time over which the Company is currently hedging its exposure to the variability in future cash flows for forecasted transactions is approximately 7.4 years. At both March 31, 2022 and December 31, 2021 the Company had no current interest rate swap agreements, and forward starting interest rate swap agreements with a total notional amount of \$60.0 million at March 31, 2022 compared to \$115.0 million at December 31, 2021, all of which were designated as cash flow hedges. The interest rate swaps were determined to be fully effective during the periods presented, and therefore no amount of ineffectiveness has been included in net income. The derivative contracts are between the Company and two counterparties. To mitigate credit risk, securities are pledged to the Company by the counterparties in an amount greater than or equal to the gain position of the derivative contracts. Conversely, securities are pledged to the counterparties by the Company in an amount greater than or equal to the loss position of the derivative contracts, if applicable.

In the first quarter of 2022, the Company voluntarily terminated interest rate swaps with a total notional amount of \$55.0 million in response to market conditions and as a result of excess liquidity. Unrealized gains of \$2.6 million, net of tax expense of \$0.7 million, were reclassified from “Accumulated other comprehensive (loss) income” as of March 31, 2022 and recorded as “Swap termination fee income” in noninterest income in the accompanying consolidated statements of income for the three months ended March 31, 2022.

For the three months ended March 31, 2022, a gain of \$3.2 million, net of a \$0.8 million tax expense, has been recognized in “Other comprehensive (loss) income” in the accompanying consolidated statements of comprehensive (loss) income for the change in fair value of the interest rate swaps compared to a gain of \$6.1 million, net of a \$1.6 million tax expense, recognized for the three months ended March 31, 2021.

The fair value of the swap contracts consisted of gross assets of \$3.3 million and no gross liabilities, netting to a fair value of \$3.3 million recorded in “Other assets” in the accompanying consolidated balance sheet at March 31, 2022. The fair value of the swap contracts consisted of gross assets of \$2.6 million and gross liabilities of \$29,000, netting to a fair value of \$2.6 million recorded in “Other assets” in the accompanying consolidated balance sheet at December 31, 2021. The accumulated gain of \$2.6 million included in “Accumulated other comprehensive (loss) income” in the accompanying consolidated balance sheet as of March 31, 2022 would be reclassified to current earnings if the hedge transactions become probable of not occurring. The Company expects the hedges to remain fully effective during the remaining term of the swap contracts.

Customer Derivatives – Interest Rate Swaps

The Company enters into interest rate swaps that allow commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to an interest rate swap agreement, which serves to effectively swap the customer’s variable-rate loan into a fixed-rate loan. The Company then enters into a corresponding swap agreement with a third party in order to economically hedge its exposure through the customer agreement. The interest rate swaps with both the customers and third parties are not designated as hedges under FASB ASC Topic 815, *Derivatives and Hedging*, and are marked to market through earnings. As the interest rate swaps are structured to offset each other, changes to the underlying benchmark interest rates considered in the valuation of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit quality variations between counterparties, which may impact earnings as required by FASB ASC Topic 820, *Fair Value Measurement and Disclosure* (“ASC 820”). The Company did not recognize any gains or losses in other operating income resulting from fair value adjustments of these swap agreements during the three months ended March 31, 2022 and 2021.

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NOTE 8. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

Fair Value Hierarchy

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

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

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

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

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

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

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

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

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

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

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Based on market reference data, which may include reported trades; bids, offers or broker/dealer quotes; benchmark yields and spreads; as well as other reference data, management monitors the current placement of securities in the fair value hierarchy to determine whether transfers between levels may be warranted. At March 31, 2022 and December 31, 2021, the majority 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.

Loans held for sale are measured using quoted market prices when available. If quoted market prices are not available, comparable market values or discounted cash flow analyses may be utilized. The Company classifies these assets in level 3 of the fair value hierarchy.

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

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

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

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

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

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Fair Value of Assets and Liabilities Measured on a Recurring Basis

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

	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2022				
Assets:				
Obligations of U.S. government agencies and corporations	\$ 20,660	\$ —	\$ 20,660	\$ —
Obligations of state and political subdivisions	26,900	—	10,888	16,012
Corporate bonds	25,157	—	24,652	505
Residential mortgage-backed securities	265,295	—	265,295	—
Commercial mortgage-backed securities	75,765	—	75,765	—
Equity securities	1,609	1,609	—	—
Derivative financial instruments	3,270	—	3,270	—
Total assets	<u>\$ 418,656</u>	<u>\$ 1,609</u>	<u>\$ 400,530</u>	<u>\$ 16,517</u>

December 31, 2021

Assets:				
Obligations of U.S. government agencies and corporations	\$ 21,268	\$ —	\$ 21,268	\$ —
Obligations of state and political subdivisions	32,585	—	10,471	22,114
Corporate bonds	27,667	—	27,179	488
Residential mortgage-backed securities	199,904	—	199,904	—
Commercial mortgage-backed securities	74,085	—	74,085	—
Equity securities	1,810	1,810	—	—
Derivative financial instruments	2,599	—	2,599	—
Total assets	<u>\$ 359,918</u>	<u>\$ 1,810</u>	<u>\$ 335,506</u>	<u>\$ 22,602</u>

The Company reviews fair value hierarchy classifications on a quarterly basis. Changes in the Company's ability to observe inputs to the valuation may cause reclassification of certain assets or liabilities within the fair value hierarchy. The tables below provide a reconciliation for assets measured at fair value on a recurring basis using significant unobservable inputs, or level 3 inputs, for the three months ended March 31, 2022 and 2021 (dollars in thousands).

	Obligations of State and Political Subdivisions	Corporate Bonds
Balance at December 31, 2021	\$ 22,114	\$ 488
Realized gains (losses) included in earnings	—	—
Unrealized (losses) gains included in other comprehensive (loss) income	(1,077)	17
Purchases	—	—
Sales	—	—
Maturities, prepayments, and calls	(25)	—
Transfers into level 3	—	—
Transfers out of level 3	(5,000)	—
Balance at March 31, 2022	<u>\$ 16,012</u>	<u>\$ 505</u>

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

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

There were no liabilities measured at fair value on a recurring basis using level 3 inputs at March 31, 2022 and December 31, 2021. For the three months ended March 31, 2022 and 2021, there were no gains or losses included in earnings related to the change in fair value of the assets measured on a recurring basis using significant unobservable inputs held at the end of the period.

The following table provides quantitative information about significant unobservable inputs used in fair value measurements of level 3 assets measured at fair value on a recurring basis at March 31, 2022 or December 31, 2021 (dollars in thousands):

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Discounts
March 31, 2022				
Obligations of state and political subdivisions	\$ 16,012	Option-adjusted discounted cash flow model; present value of expected future cash flow model	Bond appraisal adjustment ⁽¹⁾	0% - 5%
Corporate bonds	505	Option-adjusted discounted cash flow model; present value of expected future cash flow model	Bond appraisal adjustment ⁽¹⁾	0%
December 31, 2021				
Obligations of state and political subdivisions	\$ 22,114	Option-adjusted discounted cash flow model; present value of expected future cash flow model	Bond appraisal adjustment ⁽¹⁾	0% - 2%
Corporate bonds	488	Option-adjusted discounted cash flow model; present value of expected future cash flow model	Bond appraisal adjustment ⁽¹⁾	2%

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

Fair Value of Assets and Liabilities Measured on a Nonrecurring Basis

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Quantitative information about assets measured at fair value on a nonrecurring basis based on significant unobservable inputs (level 3) is summarized below as of December 31, 2021. There were no assets measured on a nonrecurring basis at March 31, 2022, and there were no liabilities measured on a nonrecurring basis at March 31, 2022 or December 31, 2021 (dollars in thousands).

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Discounts	Weighted Average Discount
December 31, 2021					
Impaired loans	\$ 12,703	Discounted cash flows; underlying collateral value	Collateral discounts and estimated costs to sell	10% - 100%	60%

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

	March 31, 2022				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	\$ 91,475	\$ 91,475	\$ 91,475	\$ —	\$ —
Federal funds sold	130	130	130	—	—
Investment securities	423,703	423,677	—	400,359	23,318
Equity securities	17,904	17,904	1,609	16,295	—
Loans, net of allowance	1,856,356	1,860,269	—	—	1,860,269
Derivative financial instruments	3,270	3,270	—	3,270	—
Financial liabilities:					
Deposits, noninterest-bearing	\$ 614,416	\$ 614,416	\$ —	\$ 614,416	\$ —
Deposits, interest-bearing	1,571,588	1,467,995	—	—	1,467,995
Repurchase agreements	1,305	1,305	—	1,305	—
FHLB long-term advances	78,500	71,524	—	—	71,524
Junior subordinated debt	8,420	8,420	—	—	8,420
Subordinated debt	43,600	39,195	—	39,195	—
December 31, 2021					
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	\$ 96,541	\$ 96,541	\$ 96,541	\$ —	\$ —
Federal funds sold	500	500	500	—	—
Investment securities	365,764	366,236	—	336,357	29,879
Equity securities	16,803	16,803	1,810	14,993	—
Loans, net of allowance	1,851,153	1,866,657	—	—	1,866,657
Loans held for sale	620	625	—	—	625
Derivative financial instruments	2,599	2,599	—	2,599	—
Financial liabilities:					
Deposits, noninterest-bearing	\$ 585,465	\$ 585,465	\$ —	\$ 585,465	\$ —
Deposits, interest-bearing	1,534,801	1,538,052	—	—	1,538,052
Repurchase agreements	5,783	5,783	—	5,783	—
FHLB long-term advances	78,500	77,229	—	—	77,229
Junior subordinated debt	8,384	8,384	—	—	8,384
Subordinated debt	43,600	38,545	—	38,545	—

INVESTAR HOLDING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9. INCOME TAXES

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

	Three months ended March 31,	
	2022	2021
Income tax expense	\$ 2,600	\$ 1,430
Effective tax rate	20.5%	21.1%

For the three month period ended March 31, 2022, the effective tax rate differs from the statutory tax rate of 21% primarily due to tax exempt interest income earned on certain investment securities and bank owned life insurance. For the three month period ended March 31, 2021, the effective tax rate differs from the statutory tax rate of 21% primarily due to an increase in state taxes and the impact of share-based compensation.

NOTE 10. COMMITMENTS AND CONTINGENCIES*Unfunded Commitments*

The Company is a party to financial instruments with off-balance-sheet risk entered into in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit consisting of loan commitments and standby letters of credit, which are not included in the accompanying financial statements. Such financial instruments are recorded in the financial statements when they become payable. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded loan commitments was \$0.7 million at both March 31, 2022 and December 31, 2021 and is included in "Accrued taxes and other liabilities" in the consolidated balance sheets.

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

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

	March 31, 2022	December 31, 2021
Loan commitments	\$ 368,056	\$ 349,701
Standby letters of credit	15,965	18,259

Additionally, at March 31, 2022, the Company had unfunded commitments of \$1.9 million for its investment in Small Business Investment Company qualified funds.

INVESTAR HOLDING CORPORATION
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NOTE 11. LEASES

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

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

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

Quantitative information regarding the Company's operating leases is presented below as of and for the three months ended March 31, 2022 and 2021 (dollars in thousands).

	<u>March 31,</u>	
	<u>2022</u>	<u>2021</u>
Total operating lease cost	\$ 152	\$ 152
Weighted-average remaining lease term (in years)	7.6	8.4
Weighted-average discount rate	2.9%	2.8%

At March 31, 2022, the Company's lease ROU assets and related lease liabilities were \$3.2 million and \$3.3 million, respectively, and have remaining terms ranging from 2 to 10 years, including extension options if the Company is reasonably certain they will be exercised.

Future minimum lease payments due under non-cancelable operating leases at March 31, 2022 are presented below (dollars in thousands).

2022	\$ 448
2023	595
2024	515
2025	476
2026	339
Thereafter	1,354
Total	<u>\$ 3,727</u>

At March 31, 2022, the Company had not entered into any material leases that have not yet commenced.

The Bank owns its corporate headquarters building, the first floor of which is occupied by multiple tenants. All tenant leases are operating leases. The Bank, as lessor, recognized lease income of \$85,000 and \$79,000 for the three month periods ended March 31, 2022 and 2021, respectively.

NOTE 12. SUBSEQUENT EVENTS

On April 6, 2022, the Company entered into a Subordinated Note Purchase Agreement (the "Purchase Agreement") with certain institutional accredited investors and qualified institutional buyers (the "Purchasers") under which the Company issued an aggregate of \$20.0 million in aggregate principal amount of its 5.125% Fixed-to-Floating Rate Subordinated Notes due 2032 (the "Notes") to the Purchasers at a price equal to 100% of the aggregate principal amount of the Notes. The Purchase Agreement contained certain customary representations, warranties and covenants made by the Company, on the one hand, and the Purchasers, severally and not jointly, on the other hand. The Notes were offered and sold in reliance on the exemptions from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D thereunder.

The Notes were issued under an indenture, dated April 6, 2022 (the "Indenture"), by and among the Company and UMB Bank, National Association, as trustee (the "Trustee"). The Trustee will also serve as the initial paying agent and registrar with respect to the Notes.

The Notes have a stated maturity date of April 15, 2032 and will bear interest at a fixed rate of 5.125% per year from and including April 6, 2022 to but excluding April 15, 2027 or earlier redemption date. From April 15, 2027 to but excluding the stated maturity date or earlier redemption date, the Notes will bear interest a floating rate equal to the then current three-month term secured overnight financing rate ("SOFR"), plus 277 basis points. As provided in the

Notes, the interest rate on the Notes during the applicable floating rate period may be determined based on a rate other than three-month term SOFR. The Notes may be redeemed by the Company, in whole or in part, on or after April 15, 2027 or, in whole but not in part, under certain other limited circumstances set forth in the Indenture. 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 Notes are subject to acceleration only in limited circumstances in the case of certain bankruptcy and insolvency-related events with respect to the Company. The Notes are the 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 Notes are intended to qualify as tier 2 capital for regulatory purposes.

On April 6, 2022, in connection with the issuance of the Notes, the Company entered into a Registration Rights Agreement (the "Registration Rights Agreement") with the Purchasers, pursuant to which the Company has agreed to take steps, within certain time periods following the closing specified in the Purchase Agreement, to provide for the exchange of the Notes for subordinated notes that are registered with the Securities and Exchange Commission (the "SEC") and have substantially the same terms as the Notes. Among other things, the Company has agreed to use its commercially reasonable efforts to file an exchange offer registration statement with the SEC not later than 60 days following the closing of the sale of the Notes and to complete the exchange offer within 45 days after the effectiveness of the registration statement. Under certain circumstances, if the Company fails to meet its obligations under the Registration Rights Agreement, it would be required to pay additional interest to the holders of the Notes.

The Company expects to utilize the net proceeds from the sale of the Notes to refinance the Company's subordinated debt securities issued in 2017, for possible share repurchases and general corporate purposes.

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

Cautionary Note Regarding Forward-Looking Statements

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

- the significant risks and uncertainties for our business, results of operations and financial condition, as well as our regulatory capital and liquidity ratios and other regulatory requirements in the United States caused by the ongoing COVID-19 pandemic, including but not limited to potential continued higher inflation and supply and labor constraints, 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 and the potential impact of the termination of various pandemic-related government support programs;
- 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, including potential continued increases in interest rates in 2022;
- our ability to identify and enter into agreements to combine with attractive acquisition candidates, finance acquisitions, complete acquisitions after definitive agreements are entered into, and successfully integrate and grow acquired operations;
- cessation of the one-week and two-month U.S. dollar settings of LIBOR as of December 31, 2021 and announced cessation of the remaining U.S. dollar LIBOR settings after June 30, 2023, and the related effect on our LIBOR-based financial products and contracts, including, but not limited to, hedging products, debt obligations, investments and loans;
- the extent of continuing client demand for the high level of personalized service that is a key element of our banking approach as well as our ability to execute our strategy generally;
- our dependence on our management team, and our ability to attract and retain qualified personnel;
- changes in the quality or composition of our loan or investment portfolios, including adverse developments in borrower industries or in the repayment ability of individual borrowers;
- inaccuracy of the assumptions and estimates we make in establishing reserves for probable loan losses and other estimates;
- the concentration of our business within our geographic areas of operation in Louisiana, Texas and Alabama;
- concentration of credit exposure;
- any deterioration in asset quality and higher loan charge-offs, and the time and effort necessary to resolve problem assets;
- a reduction in liquidity, including as a result of a reduction in the amount of deposits we hold or other sources of liquidity;
- ongoing disruptions in the oil and gas industry due to the significant fluctuations in the price of oil and natural gas;
- data processing system failures and errors;
- cyberattacks and other security breaches;
- potential 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;

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- the impact of litigation and other legal proceedings to which we become subject;
- 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, including the potential for the Federal Reserve Board to raise target interest rates multiple times during 2022;
- hurricanes, tropical storms and tropical depressions, floods, winter storms, other natural disasters and adverse weather; oil spills and other man-made disasters, which have affected and may affect in the future the Company's market areas; acts of terrorism, an outbreak or intensifying of hostilities including the war in Ukraine or other international or domestic calamities, acts of God and other matters beyond our control; and
- other circumstances, many of which are beyond our control.

These factors should not be construed as exhaustive. Additional information on these and other risk factors can be found in Item 1A. "Risk Factors" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Special Note Regarding Forward-Looking Statements" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 9, 2022 (the "Annual Report") and in Part II Item 1A. "Risk Factors" of this report.

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

Company Overview

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

Through our wholly-owned subsidiary, the Bank, we provide full banking services, excluding trust services, tailored primarily to meet the needs of individuals, professionals and small to medium-sized businesses in our primary areas of operation in south Louisiana including Baton Rouge, New Orleans, Lafayette, Lake Charles, and their surrounding metropolitan areas, in southeast Texas, including Houston and its surrounding metropolitan areas, and Alice and Victoria, Texas, in west Alabama, including York and its surrounding area, and east Alabama, including Oxford and its surrounding area. The 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 23 full service branches in Louisiana, four full service branches in Texas, and six full service branches in Alabama. We have completed seven whole-bank acquisitions since 2011 and regularly review acquisition opportunities. We continue to enhance our online banking platform and plan to continue to introduce new technologies, with the goal of delivering products and services more efficiently with fewer branches and people. We closed two branches in 2021 and will close an additional two branches in the second quarter of 2022. In the first quarter of 2022, we sold one of the branches that closed in 2021 as well as two tracts of land that we held for future branch locations.

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

Certain Events That Affect Quarter-over-Quarter Comparability

Acquisitions. On April 1, 2021, the Company completed the acquisition of Cheaha Financial Group, Inc. (“Cheaha”), headquartered in Oxford, Alabama, and its wholly-owned subsidiary, Cheaha Bank. All of the issued and outstanding shares of Cheaha were converted into aggregate cash merger consideration of \$41.1 million. On the date of the acquisition, Cheaha had total assets with a fair value of \$240.8 million, including \$120.4 million in loans, and \$207.0 million in deposits, and served the residents of Calhoun County, Alabama through four branch locations. The Company recorded a core deposit intangible and goodwill of \$0.8 million and \$11.9 million, respectively, related to the acquisition of Cheaha.

Branches. We closed one branch location in Prairieville, Louisiana in April 2021 and one location in Dickinson, Texas in October 2021. Two additional branch locations, one in our Baton Rouge market and one in our Lake Charles market, will close in the second quarter of 2022. We do not expect to open de novo branches during the remainder of 2022.

COVID-19 Pandemic. The COVID-19 pandemic and related governmental control measures severely disrupted financial markets and overall economic conditions in 2020 and 2021. While the impact of the pandemic and the associated uncertainties remain in 2022, there has been significant progress made with COVID-19 vaccination levels, which has resulted in the easing of restrictive measures in the United States. At the same time, many industries have been experiencing supply chain disruptions and labor shortages. Inflation has also increased significantly, including oil and gas prices which have also risen significantly due to the war in Ukraine. We cannot predict the extent to which individuals may decide to restrict their activities as a result of evolving pandemic developments, the extent to which governments may reinstitute certain restrictions, nor what future impact evolving pandemic developments may have on the economy or our business.

Federal Funds Target Rate. On March 16, 2022, the Federal Reserve raised the federal funds target rate by 25 basis points to 0.25% to 0.50%. During first-quarter 2021, the federal funds target rate was 0% to 0.25%

Overview of Financial Condition and Results of Operations

For the three months ended March 31, 2022, net income was \$10.1 million, or \$0.98 and \$0.97 per basic and diluted common share, respectively, compared to net income of \$5.4 million, or \$0.51 per basic and diluted common share for the three months ended March 31, 2021. Net income increased primarily due to an increase in noninterest income, which was driven by \$3.3 million in swap termination fee income, and a decrease in interest expense, which was driven by a 38 basis point decrease in our cost of deposits. We also recorded a negative provision for loan losses of \$0.4 million in the three months ended March 31, 2022 as a result of net recoveries of \$0.7 million, compared to a \$0.4 million provision for loan losses in the three months ended March 31, 2021. At March 31, 2022, the Company and Bank each were in compliance with all regulatory capital requirements, and the Bank was considered “well-capitalized” under the FDIC’s prompt corrective action regulations. Other key components of our performance for the quarter ended March 31, 2022 compared to the quarter ended March 31, 2021 are summarized below.

- For the three months ended March 31, 2022, our net interest margin was 3.75% compared to 3.64% for the three months ended March 31, 2021.
- Return on average assets increased to 1.60% for the three months ended March 31, 2022 compared to 0.92% for the three months ended March 31, 2021. Return on average equity was 16.64% for the three months ended March 31, 2022 compared to 8.79% for the three months ended March 31, 2021.
- Total loans increased \$5.4 million, or 0.3%, to \$1.88 billion at March 31, 2022 compared to \$1.87 billion at December 31, 2021. Excluding PPP loans with a total balance of \$13.2 million and \$23.3 million at March 31, 2022 and December 31, 2021, respectively, loans increased \$15.6 million, or 0.8%, at March 31, 2022 compared to December 31, 2021.
- Total deposits increased \$65.7 million, or 3.1%, to \$2.19 billion at March 31, 2022, compared to \$2.12 billion at December 31, 2021. Noninterest-bearing deposits increased \$29.0 million, or 4.9%, to \$614.4 million at March 31, 2022, compared to \$585.5 million at December 31, 2021.
- Deposit mix improved during the first quarter of 2022. Noninterest-bearing deposits as a percentage of total deposits increased to 28.1% at March 31, 2022 compared to 27.6% at December 31, 2021. Time deposits as a percentage of total deposits decreased to 18.4% at March 31, 2022, compared to 21.1% at December 31, 2021.
- During the three months ended March 31, 2022, the Company paid \$1.5 million to repurchase 77,248 shares of its common stock, compared to paying \$6.7 million to repurchase 225,950 shares of its common stock during the three months ended March 31, 2021. On April 21, 2022, the board of directors approved an additional 400,000 shares of the Company’s common stock for repurchase.

Subsequent to the end of the first quarter of 2022, we announced the completion of a private placement of \$20.0 million in aggregate principal amount of our 5.125% Fixed-to-Floating Subordinated Notes due 2032 (the “2032 Notes”). We expect to utilize the net proceeds from the sale of the 2032 Notes to refinance our 2017 issuance of subordinated debt securities, for possible share repurchases and for general corporate purposes.

Discussion and Analysis of Financial Condition**Loans**

General. Loans, excluding loans held for sale, constitute our most significant asset, comprising 73% and 74% of our total assets at March 31, 2022 and December 31, 2021, respectively. Total loans increased \$5.4 million, or 0.3%, to \$1.88 billion at March 31, 2022 compared to \$1.87 billion at December 31, 2021. The increase in loans was primarily the result of organic growth.

Beginning in the second quarter of 2020, the Bank has participated as a lender in the Paycheck Protection Program (“PPP”) as established by the CARES Act. At March 31, 2022, the balance, net of repayments, of the Bank’s PPP loans originated was \$13.2 million, compared to \$23.3 million at December 31, 2021, and 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. At March 31, 2022, approximately 92% of the total balance of PPP loans originated have been forgiven by the SBA or paid off by the customer. Excluding PPP loans with a total balance of \$13.2 million and \$23.3 million at March 31, 2022 and December 31, 2021, respectively, loans increased \$15.6 million, or 0.8%, at March 31, 2022 compared to December 31, 2021.

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).

	March 31, 2022		December 31, 2021	
	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans
Construction and development	\$ 201,222	10.7%	\$ 203,204	10.9%
1-4 Family	367,520	19.6	364,307	19.4
Multifamily	52,500	2.8	59,570	3.2
Farmland	18,296	1.0	20,128	1.1
Commercial real estate				
Owner-occupied	436,763	23.3	460,205	24.6
Nonowner-occupied	471,447	25.1	436,172	23.3
Total mortgage loans on real estate	1,547,748	82.5	1,543,586	82.5
Commercial and industrial	314,093	16.7	310,831	16.6
Consumer	15,603	0.8	17,595	0.9
Total loans	1,877,444	100%	1,872,012	100%
Loans held for sale	—		620	
Total gross loans	\$ 1,877,444		\$ 1,872,632	

At March 31, 2022, the Company’s business lending portfolio, which consists of loans secured by owner-occupied commercial real estate properties and commercial and industrial loans, was \$750.9 million, a decrease of \$20.2 million, or 2.6%, compared to \$771.0 million at December 31, 2021. The decrease in the business lending portfolio was driven by the forgiveness of PPP loans and a large prepayment from one of our owner-occupied commercial real estate loan relationships.

Our focus on a relationship-driven banking strategy and hiring of experienced commercial lenders are the primary reasons we experienced our largest organic loan growth in the commercial real estate portfolio. We have increased our emphasis on commercial real estate loans and commercial and industrial loans.

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The following table sets forth loans outstanding at March 31, 2022, excluding loans held for sale, which, based on remaining scheduled repayments of principal, are due in the periods indicated. Loans with balloon payments and longer amortizations are often repriced and extended beyond the initial maturity when credit conditions remain satisfactory. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported below as due in one year or less (dollars in thousands).

	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years Through Fifteen Years	After Fifteen Years	Total
Construction and development	\$ 137,917	\$ 30,573	\$ 20,881	\$ 8,673	\$ 3,178	\$ 201,222
1-4 Family	53,340	77,916	48,630	28,464	159,170	367,520
Multifamily	16,182	31,471	3,337	393	1,117	52,500
Farmland	5,654	7,433	5,004	205	—	18,296
Commercial real estate						
Owner-occupied	38,099	108,835	177,537	103,552	8,740	436,763
Nonowner-occupied	64,509	220,695	148,220	37,799	224	471,447
Total mortgage loans on real estate	315,701	476,923	403,609	179,086	172,429	1,547,748
Commercial and industrial	140,824	83,774	54,720	28,010	6,765	314,093
Consumer	3,737	9,934	1,550	378	4	15,603
Total loans	\$ 460,262	\$ 570,631	\$ 459,879	\$ 207,474	\$ 179,198	\$ 1,877,444

Loan Concentrations. Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. At March 31, 2022 and December 31, 2021, 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, excluding loans held for sale, 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 5.5% of our total loan portfolio, or 5.4% excluding PPP loans, at March 31, 2022, compared to 5.6% of our total portfolio, or 5.4% excluding PPP loans, at December 31, 2021, as shown in the table below.

Industry	Percentage of Loan Portfolio March 31, 2022	Percentage of Loan Portfolio March 31, 2022 (excluding PPP loans)	Percentage of Loan Portfolio December 31, 2021	Percentage of Loan Portfolio December 31, 2021 (excluding PPP loans)
Oil and gas	2.0%	2.0%	2.2%	2.1%
Food services	2.4	2.3	2.3	2.2
Hospitality	0.5	0.5	0.5	0.5
Entertainment	0.6	0.6	0.6	0.6
Total	5.5%	5.4%	5.6%	5.4%

Investment Securities

We purchase investment securities primarily to provide a source for meeting liquidity needs, with return on investment a secondary consideration. We also use investment securities as collateral for certain deposits and other types of borrowing. Investment securities represented 16% of our total assets and totaled \$423.7 million at March 31, 2022, an increase of \$57.9 million, or 15.8%, from \$365.8 million at December 31, 2021. The increase in investment securities at March 31, 2022 compared to December 31, 2021 resulted from increases in investments in residential mortgage-backed securities, slightly offset by a decrease in investments in obligations of political and state subdivisions.

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

	March 31, 2022		December 31, 2021	
	Balance	Percentage of Portfolio	Balance	Percentage of Portfolio
Obligations of U.S. government agencies and corporations	\$ 20,660	4.9%	\$ 21,268	5.8%
Obligations of state and political subdivisions	33,686	8.0	39,495	10.8
Corporate bonds	25,157	5.9	27,667	7.6
Residential mortgage-backed securities	268,435	63.3	203,249	55.6
Commercial mortgage-backed securities	75,765	17.9	74,085	20.2
Total	<u>\$ 423,703</u>	<u>100%</u>	<u>\$ 365,764</u>	<u>100%</u>

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

The table below sets forth the stated maturities and weighted average yields of our investment debt securities based on the amortized cost of our investment portfolio at March 31, 2022 (dollars in thousands).

	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Held to maturity:								
Obligations of state and political subdivisions	\$ 870	5.88%	\$ 1,875	5.88%	\$ 4,041	3.59%	\$ —	—%
Residential mortgage-backed securities	—	—	—	—	—	—	3,140	3.00
Available for sale:								
Obligations of U.S. government agencies and corporations	—	—	2,756	2.71	17,931	2.30	—	—
Obligations of state and political subdivisions	280	3.00	1,006	2.80	9,764	2.43	16,821	3.49
Corporate bonds	—	—	7,449	1.99	15,026	3.73	4,000	2.69
Residential mortgage-backed securities	—	—	—	—	2,047	2.11	280,679	2.04
Commercial mortgage-backed securities	—	—	2,251	2.59	3,241	1.73	73,508	1.86
	<u>\$ 1,150</u>		<u>\$ 15,337</u>		<u>\$ 52,050</u>		<u>\$ 378,148</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%.

Deposits

The following table sets forth the composition of our deposits and the percentage of each deposit type to total deposits at March 31, 2022 and December 31, 2021 (dollars in thousands).

	March 31, 2022		December 31, 2021	
	Amount	Percentage of Total Deposits	Amount	Percentage of Total Deposits
Noninterest-bearing demand deposits	\$ 614,416	28.1%	\$ 585,465	27.6%
Interest-bearing demand deposits	710,914	32.5	650,868	30.7
Money market deposit accounts	276,112	12.6	255,501	12.1
Savings accounts	182,532	8.4	180,837	8.5
Time deposits	402,030	18.4	447,595	21.1
Total deposits	<u>\$ 2,186,004</u>	<u>100%</u>	<u>\$ 2,120,266</u>	<u>100%</u>

Total deposits were \$2.19 billion at March 31, 2022, an increase of \$65.7 million, or 3.1%, compared to \$2.12 billion at December 31, 2021. The increase is due to organic growth, partially offset by a decrease in time deposits.

The COVID-19 pandemic has created a significant amount of excess liquidity in the market, and, as a result, we experienced large increases in both noninterest and interest-bearing demand deposits, and in money market deposit accounts compared to December 31, 2021. These increases were primarily driven by reduced spending by consumer and business customers as well as organic growth.

Our deposit mix has improved and reflects our consistent focus on relationship banking and growing our commercial relationships, as well as the effects of the pandemic on consumer and business spending. From December 31, 2021 to March 31, 2022, noninterest-bearing deposits as a percentage of total deposits has increased while time deposits as a percentage of total deposits has decreased.

Borrowings

At March 31, 2022, total borrowings include securities sold under agreements to repurchase, federal funds purchased, advances from the Federal Home Loan Bank (“FHLB”), unsecured lines of credit with First National Bankers Bank and The Independent Bankers Bank totaling \$60.0 million, subordinated debt issued in 2017 and 2019, and junior subordinated debentures assumed through acquisitions.

Securities sold under agreements to repurchase decreased \$4.5 million to \$1.3 million at March 31, 2022 from \$5.8 million at December 31, 2021. Our advances from the FHLB were \$78.5 million at March 31, 2022 and December 31, 2021.

We had no outstanding balances drawn on unsecured lines of credit at March 31, 2022 or December 31, 2021. The carrying value of the subordinated debt was \$43.0 million at March 31, 2022 and December 31, 2021. The \$8.4 million in junior subordinated debt at March 31, 2022 and December 31, 2021 represent the junior subordinated debentures that we assumed through acquisitions.

The average balances and cost of funds of short-term borrowings for the three months ended March 31, 2022 and 2021 are summarized in the table below (dollars in thousands).

	Average Balances		Cost of Funds	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Federal funds purchased and other short-term borrowings	\$ 52	\$ 6,599	0.66%	0.17%
Securities sold under agreements to repurchase	5,564	4,808	0.15	0.20
Total short-term borrowings	<u>\$ 5,616</u>	<u>\$ 11,407</u>	<u>0.15%</u>	<u>0.18%</u>

The main source of our short-term borrowings are advances from the FHLB. The rate charged for these advances is directly tied to the Federal Reserve Bank’s federal funds target rate. On March 3, 2020, the Federal Reserve lowered the federal funds target rate to 1.00 to 1.25%, which the Federal Reserve stated was in response to the evolving risks to economic activity posed by the coronavirus. As the coronavirus spread and was declared a pandemic, the Federal Reserve further reduced the federal funds target rate to 0 to 0.25% on March 15, 2020. On March 16, 2022, the Federal Reserve raised the federal funds target rate by 25 basis points to 0.25% to 0.50%.

For a description of our subordinated notes outstanding at March 31, 2022, see our Annual Report, Part II Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Discussion and Analysis of Financial Condition - Borrowings - 2029 Notes and 2027 Notes” and Note 11 to the financial statements included in such report.

On April 6, 2022, we entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors and qualified institutional buyers (the “Purchasers”) under which we issued an aggregate of \$20.0 million in aggregate principal amount of our 2032 Notes to the Purchasers at a price equal to 100% of the aggregate principal amount of the 2032 Notes. We intend to use the net proceeds to refinance our 2017 issuance of subordinated debt securities, for possible share repurchases, and for general corporate purposes. For additional information, see Note 12 to the financial statements included in this report.

Results of Operations

Net Interest Income and Net Interest Margin

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

Three months ended March 31, 2022 vs. three months ended March 31, 2021. Net interest income increased 11.1% to \$21.8 million for the three months ended March 31, 2022 compared to \$19.6 million for the same period in 2021. This increase is primarily due to the decrease in the cost of deposits compared to the same period in 2021, and prepayment penalty fees of \$0.6 million as one of our large commercial loan relationships prepaid. Average interest-bearing deposits increased approximately \$92.1 million for the three months ended March 31, 2022 compared to the same period in 2021, but we experienced a \$1.3 million decrease in interest expense, discussed in more detail below. The increase in average interest-bearing deposits resulted from organic growth and growth through the acquisition of Cheaha. The organic growth experienced was partially driven by reduced consumer and business spending related to the pandemic as well as increases in PPP borrowers' deposit accounts. There was also a \$5.5 million increase in average loans, primarily due to the acquisition of Cheaha, compared to the same period in 2021, which drove a \$0.9 million increase in interest income, also discussed in more detail below.

Interest income was \$23.9 million, including \$0.4 million of interest and fees for PPP loans and \$0.6 million of prepayment penalty fees, for the three months ended March 31, 2022, compared to \$23.0 million, including \$1.4 million of interest and fees for PPP loans, for the same period in 2021. Loan interest income made up substantially all of our interest income for the three months ended March 31, 2022 and 2021. An increase in interest income of \$0.7 million can be attributed to the change in the volume of interest-earning assets, and an increase of \$0.2 million can be attributed to an increase in the yield earned on those assets. Prepayment penalty fees of \$0.6 million recognized as loan fees during the quarter ended March 31, 2022 added 12 basis points to the yield on the loan portfolio. The overall yield on interest-earning assets was 4.10% and 4.26% for the three months ended March 31, 2022 and 2021, respectively. The loan portfolio yielded 4.73% and 4.72% for the three months ended March 31, 2022 and March 31, 2021, respectively, while the yield on the investment portfolio was 1.90% for the three months ended March 31, 2022 compared to 1.65% for the three months ended March 31, 2021. The decrease in the overall yield on interest-earning assets compared to the quarter ended March 31, 2021 was driven by excess liquidity and a reduction in the yield earned on the excess funds.

Interest expense was \$2.0 million for the three months ended March 31, 2022, a decrease of \$1.3 million compared to interest expense of \$3.3 million for the three months ended March 31, 2021. A decrease in interest expense of \$0.2 million resulted from the change in volume of interest-bearing liabilities and a decrease of \$1.1 million resulted from the decrease in the cost of interest-bearing liabilities, primarily time deposits. Average interest-bearing liabilities increased approximately \$88.9 million for the three months ended March 31, 2022 compared to the same period in 2021 mainly as a result of a \$92.1 million increase in interest-bearing deposits, while average short- and long-term debt decreased by \$3.3 million. The cost of deposits decreased 38 basis points to 0.25% for the three months ended March 31, 2022 compared to 0.63% for the three months ended March 31, 2021 as a result of the decrease in the rates offered for our all of our interest-bearing deposit products, which are driven by the federal funds target rate. The cost of interest-bearing liabilities decreased 35 basis points to 0.48% for the three months ended March 31, 2022 compared to 0.83% for the same period in 2021, due to the decrease in the cost of both deposits and short-term borrowings.

Net interest margin was 3.75% for the three months ended March 31, 2022, an increase of 11 basis points from 3.64% for the three months ended March 31, 2021. The increase in net interest margin was primarily driven by a 38 basis point decrease in the cost of deposits partially offset by a 16 basis point decrease in the yield on interest-earning assets.

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Average Balances and Yields. The following table sets forth average balance sheet data, including all major categories of interest-earning assets and interest-bearing liabilities, together with the interest earned or paid and the average yield or rate paid on each such category for the three months ended March 31, 2022 and 2021. Averages presented in the table below are daily averages (dollars in thousands).

	Three months ended March 31,					
	2022			2021		
	Average Balance	Interest Income/ Expense(1)	Yield/ Rate(1)	Average Balance	Interest Income/ Expense(1)	Yield/ Rate(1)
Assets						
Interest-earning assets:						
Loans	\$ 1,862,775	\$ 21,726	4.73%	\$ 1,857,272	\$ 21,627	4.72%
Securities:						
Taxable	395,828	1,814	1.86	270,040	1,039	1.56
Tax-exempt	22,248	141	2.58	20,228	140	2.81
Interest-earning balances with banks	77,461	186	0.97	38,313	163	1.72
Total interest-earning assets	2,358,312	23,867	4.10	2,185,853	22,969	4.26
Cash and due from banks	44,900			30,335		
Intangible assets	43,928			32,112		
Other assets	134,491			126,750		
Allowance for loan losses	(20,800)			(20,546)		
Total assets	<u>\$ 2,560,831</u>			<u>\$ 2,354,504</u>		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand deposits	\$ 965,574	\$ 339	0.14%	\$ 736,502	\$ 685	0.38%
Brokered deposits	3,188	2	0.27	83,832	209	1.01
Savings deposits	180,568	21	0.05	146,078	66	0.19
Time deposits	427,313	614	0.58	518,103	1,342	1.05
Total interest-bearing deposits	1,576,643	976	0.25	1,484,515	2,302	0.63
Short-term borrowings	5,616	2	0.15	11,407	6	0.18
Long-term debt	129,904	1,068	3.33	127,364	1,027	3.27
Total interest-bearing liabilities	1,712,163	2,046	0.48	1,623,286	3,335	0.83
Noninterest-bearing deposits	586,556			466,531		
Other liabilities	15,803			17,451		
Stockholders' equity	246,309			247,236		
Total liabilities and stockholders' equity	<u>\$ 2,560,831</u>			<u>\$ 2,354,504</u>		
Net interest income/net interest margin		<u>\$ 21,821</u>	<u>3.75%</u>		<u>\$ 19,634</u>	<u>3.64%</u>

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

	Three months ended March 31, 2022 vs. Three months ended March 31, 2021		
	Volume	Rate	Net(1)
Interest income:			
Loans	\$ 65	\$ 34	\$ 99
Securities:			
Taxable	483	291	774
Tax-exempt	14	(12)	2
Interest-earning balances with banks	166	(143)	23
Total interest-earning assets	728	170	898
Interest expense:			
Interest-bearing demand deposits	213	(559)	(346)
Brokered deposits	(201)	(6)	(207)
Savings deposits	16	(62)	(46)
Time deposits	(235)	(492)	(727)
Short-term borrowings	(3)	—	(3)
Long-term debt	20	20	40
Total interest-bearing liabilities	(190)	(1,099)	(1,289)
Change in net interest income	\$ 918	\$ 1,269	\$ 2,187

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

Noninterest Income

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

Three months ended March 31, 2022 vs. three months ended March 31, 2021. Total noninterest income increased \$3.5 million, or 148.0%, to \$5.9 million for the three months ended March 31, 2022 compared to \$2.4 million for the three months ended March 31, 2021. The increase in noninterest income is mainly attributable to increases of \$3.3 million in swap termination fee income and \$0.4 million in gain on sale or disposition of fixed assets, partially offset by a \$0.6 million decrease in the gain on call or sale of investment securities compared to the three months ended March 31, 2021. The gain on sale or disposition of fixed assets resulted from our sale of two tracts of land that we held for future branch locations.

Swap termination fees were recorded when we voluntarily terminated a number of interest rate swap agreements during the first quarter of 2022 in response to market conditions and as a result of excess liquidity. In the past few years, we have entered into multiple forward starting pay-fixed interest rate swap agreements to manage exposure against the variability in expected future cash flows, in anticipation of rising rates. However, the borrowings required by the swap agreements provide excess liquidity and put downward pressure on the yield on our interest-earning assets and net interest margin. We elected to terminate a number of swap contracts that became effective in the first quarter of 2022 or would be effective in the second quarter of 2022 to avoid additional excess liquidity and net interest margin compression. We had forward starting interest rate swap contracts with a total notional amount of \$60 million as of March 31, 2022.

Noninterest Expense

Three months ended March 31, 2022 vs. three months ended March 31, 2021. Total noninterest expense was \$15.4 million for the three months ended March 31, 2022, an increase of \$0.6 million, or 4.2%, compared to the same period in 2021. The increase is primarily attributable to a \$0.4 million increase in other operating expenses and \$0.3 million increase in salaries and employee benefits. The increase in other operating expenses was driven by an increase in collection and repossession expenses, the majority of which is related to one impaired loan relationship. The increase in salaries and employee benefits is primarily attributable to the acquisition of Cheaha on April 1, 2021, which added four branch locations and related staff.

Income Tax Expense

Income tax expense for the three months ended March 31, 2022 and 2021 was \$2.6 million and \$1.4 million, respectively. The effective tax rate for the three months ended March 31, 2022 and 2021 was 20.5% and 21.1%, respectively.

For the three months ended March 31, 2022, the effective tax rate differs from the statutory tax rate of 21% primarily due to tax exempt interest income earned on certain investment securities and bank owned life insurance. For the three months ended March 31, 2021, the effective tax rate differs from the statutory tax rate of 21% primarily due an increase in state taxes and the impact of share-based compensation.

Risk Management

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

Credit Risk and the Allowance for Loan Losses

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

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

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- *Special Mention (grade 7)* – Loans classified as special mention possess some credit deficiencies that need to be corrected to avoid a greater risk of default in the future. For example, financial ratios relating to the borrower may have deteriorated. Often, a special mention categorization is temporary while certain factors are analyzed or matters addressed before the loan is re-categorized as either pass or substandard.
- *Substandard (grade 8)* – Loans rated as substandard are inadequately protected by the current net worth and paying capacity of the borrower or the liquidation value of any collateral. If deficiencies are not addressed, it is likely that this category of loan will result in the Bank incurring a loss. Where a borrower has been unable to adjust to industry or general economic conditions, the borrower's loan is often categorized as substandard.
- *Doubtful (grade 9)* – Doubtful loans are substandard loans with one or more additional negative factors that makes full collection of amounts outstanding, either through repayment or liquidation of collateral, highly questionable and improbable.
- *Loss (grade 10)* – Loans classified as loss have deteriorated to such a point that it is not practicable to defer writing off the loan. For these loans, all efforts to remediate the loan's negative characteristics have failed and the value of the collateral, if any, has severely deteriorated relative to the amount outstanding. Although some value may be recovered on such a loan, it is not significant in relation to the amount borrowed.

At March 31, 2022 and December 31, 2021, there were no loans classified as loss. There was \$0.5 million of loans classified as doubtful at March 31, 2022, compared to \$0.7 million at December 31, 2021. At March 31, 2022 and December 31, 2021, there were \$36.6 million and \$46.8 million, respectively, of loans classified as substandard, and \$5.7 million and \$7.3 million, respectively, of loans classified as special mention.

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 generally sold at public auction for fair market value, with fees associated with the foreclosure being deducted from the sales price. The purchase price is applied to the outstanding loan balance. If the loan balance is greater than the sales proceeds, the deficient balance is charged-off.

Allowance for Loan Losses. The allowance for loan losses is an amount that management believes will be adequate to absorb probable losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on an ongoing analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment as recognized under ASC 450, *Contingencies*. Collective impairment is calculated based on loans grouped by type. Another component of the allowance is losses on loans assessed as impaired under ASC 310, *Receivables*. The balance of these loans and their related allowance is included in management's estimation and analysis of the allowance for loan losses. Other considerations in establishing the allowance for loan losses include the nature and volume of the loan portfolio, overall portfolio quality, historical loan loss, review of specific problem loans and current economic conditions that may affect our borrowers' ability to pay, as well as trends within each of these factors. The allowance for loan losses is established after input from management as well as our risk management department and our special assets committee. We evaluate the adequacy of the allowance for loan losses on a quarterly basis. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses was \$21.1 million and \$20.9 million at March 31, 2022 and December 31, 2021, respectively.

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 March 31, 2022, which include TDRs and nonaccrual loans individually evaluated for impairment for purposes of determining the allowance for loan losses, were \$27.2 million compared to \$32.8 million at December 31, 2021. At March 31, 2022 and December 31, 2021, \$0.5 million and \$0.6 million, respectively, of the allowance for loan losses was specifically allocated to impaired loans.

The provision for loan losses is a charge to expense in an amount that management believes is necessary to maintain an adequate allowance for loan losses. The provision is based on management's regular evaluation of current economic conditions in our specific markets as well as regionally and nationally, changes in the character and size of the loan portfolio, underlying collateral values securing loans, and other factors which deserve recognition in estimating loan losses. For the three months ended March 31, 2022 and 2021, the provision for loan losses was negative \$0.4 million and \$0.4 million, respectively. The negative provision for loan losses for the three months ended March 31, 2022 was driven by net recoveries of \$0.7 million in the loan portfolio during the quarter.

Acquired loans that are accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"), were marked to market on the date we acquired the loans to values which, in management's opinion, reflected the estimated future cash flows, based on the facts and circumstances surrounding each respective loan at the date of acquisition. We continually monitor these loans as part of our normal credit review and monitoring procedures for changes in the estimated future cash flows. Because ASC 310-30 does not permit carry over or recognition of an allowance for loan losses, we may be required to reserve for these loans in the allowance for loan losses through future provision for loan losses if future cash flows deteriorate below initial projections. There was no provision for loan losses charged to operating expense attributable to loans accounted for under ASC 310-30 for the three months ended March 31, 2022 and 2021.

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

	March 31, 2022		December 31, 2021	
	Allowance for Loan Losses	% of Loans in each Category to Total Loans	Allowance for Loan Losses	% of Loans in each Category to Total Loans
Mortgage loans on real estate:				
Construction and development	\$ 2,408	10.7%	\$ 2,347	10.9%
1-4 Family	3,404	19.6	3,337	19.4
Multifamily	590	2.8	673	3.2
Farmland	342	1.0	383	1.1
Commercial real estate	9,669	48.4	9,354	47.9
Commercial and industrial	4,356	16.7	4,411	16.6
Consumer	319	0.8	354	0.9
Total	\$ 21,088	100%	\$ 20,859	100%

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).

	March 31, 2022	December 31, 2021
Mortgage loans on real estate:		
Construction and development	0.13%	0.12%
1-4 Family	0.18	0.18
Multifamily	0.03	0.04
Farmland	0.02	0.02
Commercial real estate	0.51	0.50
Commercial and industrial	0.23	0.23
Consumer	0.02	0.02
Total	1.12%	1.11%

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

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

	Three months ended March 31,	
	2022	2021
Allowance at beginning of period	\$ 20,859	\$ 20,363
Provision for loan losses	(449)	400
Net recoveries (charge-offs)	678	(340)
Allowance at end of period	\$ 21,088	\$ 20,423
Total loans - period end	1,877,444	1,845,970
Nonaccrual loans - period end	25,641	13,166
Key ratios:		
Allowance for loan losses to total loans - period end	1.12%	1.11%
Allowance for loan losses to nonaccrual loans - period end	82.24%	155.12%
Nonaccrual loans to total loans - period end	1.37%	0.71%

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The allowance for loan losses to total loans increased to 1.12% at March 31, 2022 compared to 1.11% at March 31, 2021, while the allowance for loan losses to nonaccrual loans ratio decreased to 82% at March 31, 2022 compared to 155% at March 31, 2021. The increase in the allowance for loan losses to total loans at March 31, 2022 is primarily due to the increase in the allowance for loan losses compared to March 31, 2021. The decrease in the allowance for loan losses to nonaccrual loans is due to the increase in nonaccrual loans primarily due to one loan relationship impacted by Hurricane Ida. Nonaccrual loans were \$25.6 million, or 1.37% of total loans, at March 31, 2022, an increase of \$12.5 million compared to \$13.2 million, or 0.71% of total loans at March 31, 2021.

The following table presents the allocation of net (charge-offs) recoveries by loan category for the periods indicated (dollars in thousands).

	Three months ended March 31,					
	2022			2021		
	Net Recoveries (Charge-offs)	Average Balance	Ratio of Net Charge-offs to Average Loans	Net Recoveries (Charge-offs)	Average Balance	Ratio of Net Charge-offs to Average Loans
Mortgage loans on real estate:						
Construction and development	\$ 16	\$ 208,768	(0.01)%	\$ 10	\$ 194,531	(0.01)%
1-4 Family	70	364,740	(0.02)	(128)	340,319	0.04
Multifamily	—	57,470	—	—	62,167	—
Farmland	(54)	19,043	0.28	—	25,873	—
Commercial real estate	59	884,271	(0.01)	2	832,435	(0.00)
Commercial and industrial	622	311,812	(0.20)	(210)	382,400	0.05
Consumer	(35)	16,671	0.21	(14)	19,547	0.07
Total	<u>\$ 678</u>	<u>\$ 1,862,775</u>	<u>(0.04)</u>	<u>\$ (340)</u>	<u>\$ 1,857,272</u>	<u>0.02</u>

Charge-offs reflect the realization of losses in the portfolio that were recognized previously through the provision for loan losses. Net charge-offs include recoveries of amounts previously charged off. Net recoveries of \$0.7 million and net charge-offs of \$0.3 million for the three months ended March 31, 2022 and 2021, respectively, equal 0.04% and 0.02%, respectively, of the average loan balance for each period.

Management believes the allowance for loan losses at March 31, 2022 is sufficient to provide adequate protection against losses in our portfolio. Although the allowance for loan losses is considered adequate by management, there can be no assurance that this allowance will prove to be adequate over time to cover ultimate losses in connection with our loans. This allowance may prove to be inadequate due to the scope and duration of the COVID-19 pandemic and its continued influence on the economy, other unanticipated adverse changes in the economy, or discrete events adversely affecting specific customers or industries. Our results of operations and financial condition could be materially adversely affected to the extent that the allowance is insufficient to cover such changes or events.

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

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

There were 24 credits classified as TDRs at March 31, 2022 with a total aggregate balance of \$7.4 million, compared to 29 credits with a total aggregate balance of \$10.5 million at December 31, 2021. At March 31, 2022, eleven of the restructured loans were considered TDRs due to modification of terms through adjustments to maturity, seven of the restructured loans were considered TDRs due to a reduction in the interest rate to a rate lower than the current market rate, four restructured loans were considered TDRs due to principal payment forbearance, paying interest only for a specified period of time, and two of the restructured loans were considered TDRs due to principal and interest forbearance.

As of March 31, 2022 and December 31, 2021, none of the TDRs were in default of their modified terms and included in nonaccrual loans. The Company individually evaluates each TDR for allowance purposes, primarily based on collateral value, and excludes these loans from the loan population that is collectively evaluated for impairment.

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Other Real Estate Owned. Other real estate owned consists of properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure. These properties are carried at the lower of cost or fair market value based on appraised value, less estimated selling costs. Losses arising at the time of foreclosure of properties are charged to the allowance for loan losses. Other real estate owned with a cost basis of \$0.8 million was sold during the three months ended March 31, 2022, resulting in a gain of \$41,000 for the period. No other real estate owned was sold during the three months ended March 31, 2021. At March 31, 2022, approximately \$0.1 million of loans secured by real estate were in the process of foreclosure.

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

	March 31, 2022	December 31, 2021
1-4 Family	\$ 629	\$ 168
Farmland	990	—
Commercial real estate	1,835	2,485
Total other real estate owned	<u>\$ 3,454</u>	<u>\$ 2,653</u>

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

	Three months ended March 31,	
	2022	2021
Balance, beginning of period	\$ 2,653	\$ 663
Additions	1,620	501
Transfers from acquired loans	—	354
Sales of other real estate owned	(819)	—
Balance, end of period	<u>\$ 3,454</u>	<u>\$ 1,518</u>

Impact of Inflation. Inflation reached a near 40-year high in late 2021 primarily due to effects of the ongoing pandemic, and continues to be high in 2022. When the rate of inflation accelerates, there is an erosion of consumer and customer purchasing power. Accordingly, this could impact our business by reducing our tolerance for extending credit, and our customer's desire to obtain credit, or causing us to incur additional provisions for loan losses resulting from a possible increased default rate. Inflation may lead to lower loan re-financings. Inflation may also increase the costs of goods and services we purchase, including the costs of salaries and benefits. In response to higher inflation, the Federal Reserve may increase interest rates multiple times in 2022. For additional information, see Interest Rate Risk below, and Item 1A. Risk Factors – Risks Related to our Business – Changes in interest rates could have an adverse effect on our profitability, in our Annual Report.

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, 4-6 months, 7-12 months, 13-24 months, 25-36 months, 37-60 months and more than 60 months. The goal of our asset/liability management is for the Bank to maintain a net interest income at risk in an up or down 100 basis point environment at less than (5)%. At March 31, 2022, the Bank was within the policy guidelines for asset/liability management.

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

As of March 31, 2022	
Changes in Interest Rates (in basis points)	Estimated Increase/Decrease in Net Interest Income⁽¹⁾
+300	(0.8)%
+200	(0.9)%
+100	(0.8)%
-100	(4.6)%

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

The computation of the prospective effects of hypothetical interest rate changes requires numerous assumptions regarding characteristics of new business and the behavior of existing positions. These business assumptions are based upon our experience, business plans and published industry experience. Key assumptions include asset prepayment speeds, competitive factors, the relative price sensitivity of certain assets and liabilities, and the expected life of non-maturity deposits. However, there are a number of factors that influence the effect of interest rate fluctuations on us which are difficult to measure and predict. For example, a rapid drop in interest rates might cause our loans to repay at a more rapid pace and certain mortgage-related investments to prepay more quickly than projected. 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, loan sales and borrowings are greatly influenced by general interest rates, economic conditions and the competitive environment in which we operate. To minimize funding risks, we closely monitor our liquidity position through periodic reviews of maturity profiles, yield and rate behaviors, and loan and deposit forecasts. Excess short-term liquidity is usually invested in overnight federal funds sold.

Our core deposits, which are deposits excluding time deposits greater than \$250,000 and deposits of municipalities and other political entities, are our most stable source of liquidity to meet our cash flow needs due to the nature of the long-term relationships generally established with our customers. Maintaining the ability to acquire these funds as needed in a variety of markets, and within ALCO compliance targets, is essential to ensuring our liquidity. At March 31, 2022 and December 31, 2021, 83% and 81% 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 March 31, 2022, securities with a carrying value of \$158.9 million were pledged to secure certain deposits, borrowings, and other liabilities, compared to \$118.2 million in pledged securities at December 31, 2021.

Other sources available for meeting liquidity needs include advances from the FHLB, repurchase agreements and other borrowings. FHLB advances are primarily used to match-fund fixed rate loans in order to minimize interest rate risk and also may be used to meet day to day liquidity needs, particularly if the prevailing interest rate on an FHLB advance compares favorably to the rates that we would be required to pay to attract deposits. At March 31, 2022 and December 31, 2021, the balance of our outstanding advances with the FHLB was \$78.5 million. The total amount of the remaining credit available to us from the FHLB at March 31, 2022 was \$791.3 million. At March 31, 2022, our FHLB borrowings were collateralized by approximately \$878.5 million of our loan portfolio and \$1.2 million of our 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 investment securities. We had \$1.3 million of repurchase agreements outstanding at March 31, 2022 compared to \$5.8 million of repurchase agreements outstanding at December 31, 2021.

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We maintain unsecured lines of credit with other commercial banks totaling \$60.0 million. These lines of credit are federal funds lines of credit and are used for overnight borrowing only. The lines of credit mature at various times within the next year. We had no outstanding balances on our unsecured lines of credit at March 31, 2022 and December 31, 2021.

In addition, at both March 31, 2022 and December 31, 2021, we had \$43.6 million in aggregate principal amount of subordinated debt outstanding. For additional information, see our Annual Report on Form 10-K for the year ended December 31, 2021, Part II Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Discussion and Analysis of Financial Condition - Borrowings - 2029 Notes and 2027 Notes" and Note 11 to the financial statements included in such report. Subsequent to the end of the first quarter of 2022, we announced the completion of a private placement of \$20.0 million in aggregate principal amount of our 2032 Notes. We expect to utilize the net proceeds from the sale of the 2032 Notes to refinance our 2017 issuance of subordinated debt securities, for possible share repurchases and for general corporate purposes. For additional information, see Note 12 to the financial statements included in this report.

Our liquidity strategy is focused on using the least costly funds available to us in the context of our balance sheet composition and interest rate risk position. Accordingly, we target growth of noninterest-bearing deposits. Although we cannot directly control the types of deposit instruments our customers choose, we can influence those choices with the interest rates and deposit specials we offer. At March 31, 2022 and December 31, 2021, we held no brokered deposits, as defined for federal regulatory purposes; however the Bank may periodically use brokered deposits to satisfy the required borrowings under its interest rate swap agreements, due to more favorable pricing. We hold QwickRate® deposits, included in our time deposit balances, which we obtain through a qualified network to address liquidity needs when rates on such deposits compare favorably with deposit rates in our markets. At March 31, 2022, we held \$53.7 million of QwickRate® deposits, a decrease compared to \$63.8 million at December 31, 2021.

The following table presents, by type, our funding sources, which consist of total average deposits and borrowed funds, as a percentage of total funds and the total cost of each funding source for the three months ended March 31, 2022 and 2021.

	Percentage of Total Average Deposits and Borrowed Funds		Cost of Funds	
	Three months ended March 31,		Three months ended March 31,	
	2022	2021	2022	2021
Noninterest-bearing demand deposits	25%	22%	—%	—%
Interest-bearing demand deposits	42	35	0.14	0.38
Brokered deposits	—	4	0.27	1.01
Savings accounts	8	7	0.05	0.19
Time deposits	19	25	0.58	1.05
Short-term borrowings	—	1	0.15	0.18
Long-term borrowed funds	6	6	3.33	3.27
Total deposits and borrowed funds	100%	100%	0.36%	0.65%

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

During the three months ended March 31, 2022, the Company paid \$0.8 million in dividends, compared to \$0.7 million during the three months ended March 31, 2021. The Company declared dividends on its common stock of \$0.085 per share during the three months ended March 31, 2022 compared to dividends of \$0.07 per share during the three months ended March 31, 2021. Our board of directors has authorized a share repurchase program and, at March 31, 2022, the Company had 128,444 shares of its common stock remaining authorized for repurchase under the program. On April 21, 2022, the board of directors approved an additional 400,000 shares of the Company's common stock for repurchase. During the three months ended March 31, 2022, the Company paid \$1.5 million to repurchase 77,248 shares of its common stock, compared to paying \$6.7 million to repurchase 225,950 shares of its common stock during the three months ended March 31, 2021.

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We are subject to various regulatory capital requirements administered by the Federal Reserve and the OCC which specify capital tiers, including the following classifications for the Bank under the OCC's prompt corrective action regulations.

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

(1) In order to be well capitalized or adequately capitalized, a bank must satisfy each of the required ratios in the table. In order to be undercapitalized or significantly undercapitalized, a bank would need to fall below just one of the relevant ratio thresholds in the table. 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 at March 31, 2022 and December 31, 2021. 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 for Bank to be Well Capitalized Under Prompt Corrective Action Rules	
	Amount	Ratio	Amount	Ratio
March 31, 2022				
Investar Holding Corporation:				
Tier 1 leverage capital	\$ 214,925	8.53%	\$ —	—%
Common equity tier 1 capital	205,425	9.76	—	—
Tier 1 capital	214,925	10.21	—	—
Total capital	279,683	13.29	—	—
Investar Bank:				
Tier 1 leverage capital	252,570	10.03	125,875	5.00
Common equity tier 1 capital	252,570	12.01	135,666	6.50
Tier 1 capital	252,570	12.01	166,973	8.00
Total capital	274,316	13.04	208,716	10.00
December 31, 2021				
Investar Holding Corporation:				
Tier 1 leverage capital	\$ 206,899	8.12%	\$ —	—%
Common equity tier 1 capital	197,399	9.45	—	—
Tier 1 capital	206,899	9.90	—	—
Total capital	271,416	12.99	—	—
Investar Bank:				
Tier 1 leverage capital	244,541	9.60	127,313	5.00
Common equity tier 1 capital	244,541	11.72	135,651	6.50
Tier 1 capital	244,541	11.72	166,956	8.00
Total capital	266,069	12.75	208,694	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 7.4 years. At both March 31, 2022 and December 31, 2021 the Company had no current interest rate swap agreements, and forward starting interest rate swap agreements with a total notional amount of \$60.0 million at March 31, 2022 compared to \$115.0 million at December 31, 2021, all of which were designated as cash flow hedges. For additional information, see Note 7 to the financial statements included herein.

During the first quarter of 2022, the Company voluntarily terminated interest rate swaps with a total notional amount of \$55.0 million in response to market conditions and as a result of excess liquidity. Unrealized gains of \$2.6 million, net of tax expense of \$0.7 million, were reclassified from “Accumulated other comprehensive (loss) income” as of March 31, 2022 and recorded as “Swap termination fee income” in noninterest income in the accompanying consolidated statements of income for the three months ended March 31, 2022.

For the three months ended March 31, 2022, a gain of \$3.2 million, net of a \$0.8 million tax expense, has been recognized in “Other comprehensive (loss) income” in the accompanying consolidated statements of comprehensive (loss) income for the change in fair value of the interest rate swaps compared to a gain of \$6.1 million, net of a \$1.6 million tax expense, recognized for the three months ended March 31, 2021.

The Company also enters into interest rate swap contracts that allow commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to an interest rate swap agreement, which serves to effectively swap the customer’s variable-rate loan into a fixed-rate loan. The Company then enters into a corresponding swap agreement with a third party in order to economically hedge its exposure through the customer agreement. The interest rate swaps with both the customers and third parties are not designated as hedges under FASB ASC Topic 815, *Derivatives and Hedging*, and are marked to market through earnings. As the interest rate swaps are structured to offset each other, changes to the underlying benchmark interest rates considered in the valuation of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit quality variations between counterparties, which may impact earnings as required by FASB ASC Topic 820, *Fair Value Measurements*. The Company did not recognize any gains or losses in other income resulting from fair value adjustments during the three months ended March 31, 2022 and 2021.

Unfunded Commitments. The Bank enters into loan commitments and standby letters of credit in the normal course of its business. Loan commitments are made to meet the financing needs of our customers, while standby letters of credit commit the Bank to make payments on behalf of customers when certain specified future events occur. The credit risks associated with loan commitments and standby letters of credit are essentially the same as those involved in making loans to our customers. Accordingly, our normal credit policies apply to these arrangements. Collateral (e.g., securities, receivables, inventory, equipment, etc.) is obtained based on management’s credit assessment of the customer. Loan commitments are also evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded loan commitments is included in other liabilities in the consolidated balance sheets and was \$0.7 million at both March 31, 2022 and December 31, 2021, respectively.

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

	March 31, 2022	December 31, 2021
Loan commitments	\$ 368,056	\$ 349,701
Standby letters of credit	15,965	18,259

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

Additionally, at March 31, 2022, the Company had unfunded commitments of \$1.9 million for its investment in Small Business Investment Company qualified funds.

For the three months ended March 31, 2022 and for the year ended December 31, 2021, except as disclosed herein and in the Company’s Annual Report, we engaged in no off-balance sheet transactions that we believe are reasonably likely to have a material effect on our financial condition, results of operations, or cash flows.

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

The following table presents, as of March 31, 2022, contractually obligated lease payments due under non-cancelable operating leases by payment date (dollars in thousands).

Less than one year	\$ 448
One to three years	1,110
Three to five years	815

Over five years

1,354

Total

\$

3,727

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosures about market risk as of December 31, 2021 are set forth in the Company’s Annual Report in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risk Management.” Please refer to the information in Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Risk Management” in this report for additional information about the Company’s market risk for the three months ended March 31, 2022; except as discussed therein, there have been no material changes in the Company’s market risk since December 31, 2021.

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1A. Risk Factors

For information regarding risk factors that could affect Investar Holding Corporation's (the "Company") results of operations, financial condition and liquidity, see the risk factors disclosed in the Annual Report. There have been no significant changes in our risk factors as described in such Annual Report.

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

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

The table below provides information with respect to purchases made by the Company of shares of its common stock during each of the months during the three month period ended March 31, 2022.

Period	(a) Total Number of Shares (or Units) Purchased⁽¹⁾	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs⁽²⁾	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Be Purchased Under the Plans or Programs⁽²⁾
January 1, 2022 - January 31, 2022	62	\$ 18.41	—	205,692
February 1, 2022 - February 28, 2022	77,545	19.95	77,248	128,444
March 1, 2022 - March 31, 2022	13,173	20.07	—	128,444
	<u>90,780</u>	<u>\$ 19.96</u>	<u>77,248</u>	<u>128,444</u>

(1) Includes 13,532 shares surrendered to cover the payroll taxes due upon the vesting of restricted stock.

(2) On April 21, 2022, the Company announced that its board of directors authorized the repurchase of an additional 400,000 shares of the Company's common stock under its stock repurchase plan. As of May 2, 2022, the Company had 502,954 shares remaining as authorized for repurchase.

Since we are a holding company with no material business activities, our ability to pay dividends is substantially dependent upon the ability of the Bank to transfer funds to us in the form of dividends, loans and advances. The Bank's ability to pay dividends and make other distributions and payments to us depends upon the Bank's earnings, financial condition, general economic conditions, compliance with regulatory requirements and other factors. In addition, the Bank's ability to pay dividends to us is itself subject to various legal, regulatory and other restrictions under federal banking laws that are described in Part I Item 1 "Business", of our Annual Report on Form 10-K for the year ended December 31, 2021.

In addition, as a Louisiana corporation, we are subject to certain restrictions on dividends under the Louisiana Business Corporation Act. Generally, a Louisiana corporation may pay dividends to its shareholders unless, after giving effect to the dividend, either (1) the corporation would not be able to pay its debts as they come due in the usual course of business or (2) the corporation's total assets are less than the sum of its total liabilities and the amount that would be needed, if the corporation were to be dissolved at the time of the payment of the dividend, to satisfy the preferential rights of shareholders whose preferential rights are superior to those receiving the dividend. In addition, our existing and future debt agreements limit, or may limit, our ability to pay dividends. Under the terms of our 5.125% Fixed-to-Floating Rate Subordinated Notes due 2029, we may not pay a dividend if either we or the Bank, both immediately prior to the declaration of the dividend and after giving effect to the payment of the dividend, would not maintain regulatory capital ratios that are at "well capitalized" levels for regulatory capital purposes. We are also prohibited from paying dividends upon and during the continuance of any Event of Default under such notes. Under the terms of our 5.125% Fixed-to-Floating Rate Subordinated Notes due 2032, we are prohibited from paying dividends upon and during the continuance of any Event of Default under such notes. Finally, our ability to pay dividends may be limited on account of the junior subordinated debentures that we assumed through acquisitions. We must make payments on the junior subordinated debentures before any dividends can be paid on our common stock.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Reorganization, dated January 21, 2021 by and among Investar Holding Corporation, Cheaha Financial Group, Inc. and High Point Acquisition, Inc.(1)
3.1	Restated Articles of Incorporation of Investar Holding Corporation(2)
3.2	Amended and Restated By-laws of Investar Holding Corporation(3)
4.1	Specimen Common Stock Certificate(4)
4.2	Indenture, dated March 24, 2017, by and between Investar Holding Corporation and Wilmington Trust, National Association, as Trustee(5)
4.3	Supplemental Indenture, dated March 24, 2017, by and between Investar Holding Corporation and Wilmington Trust, National Association, as Trustee(6)
4.4	Form of 5.125% Fixed to Fluctuation Rate Subordinated Note due 2029(7)
4.5	Form of Registration Rights Agreement, dated December 20, 2019, by and between Investar Holding Corporation and the purchasers set forth therein(8)
4.6	Indenture, dated April 6, 2022, by and among Investar Holding Corporation and UMB Bank, National Association, as trustee(9)
4.7	Form of 5.125% Fixed-to-Floating Rate Subordinated Note due 2032(10)
4.8	Form of Subordinated Note Purchase Agreement, dated April 6, 2022, by and among Investar Holding Corporation and the several purchasers identified on the signature pages thereto(11)
4.9	Form of Registration Rights Agreement, dated April 6, 2022, by and among Investar Holding Corporation and the several purchasers identified on the signature pages thereto(12)
10.1*	Resignation agreement with Travis Lavergne, dated July 9, 2021
31.1	Certification of the Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Principal Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Principal Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

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

- (8) Filed as exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on December 24, 2019 and incorporated herein by reference.
- (9) Filed as exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on April 7, 2022 and incorporated herein by reference.
- (10) Filed as exhibit 4.2 to the Current Report on Form 8-K filed with the SEC on April 7, 2022 and incorporated herein by reference.
- (11) Filed as exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on April 7, 2022 and incorporated herein by reference.
- (12) Filed as exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on April 7, 2022 and incorporated herein by reference.

* Management contract or compensatory plan or arrangement.

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

SIGNATURES

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

Date: May 4, 2022

INVESTAR HOLDING CORPORATION

/s/ John J. D'Angelo

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

Date: May 4, 2022

/s/ Christopher L. Hufft

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

VOLUNTARY RESIGNATION AGREEMENT

This Voluntary Resignation Agreement (the "Agreement") is entered into by and between Investar Bank ("Investar") and Travis Lavergne ("Employee") as of the date of its acceptance by Employee.

WHEREAS, Employee shall resign from his employment with Investar effective July 9, 2021 (the "Resignation Date");

WHEREAS, in consideration of Employee's past service to Investar and his acceptance of this Agreement, Investar desires to provide certain separation benefits as described below, not otherwise available to Employee; and

WHEREAS, Employee desires to accept this Agreement and receive the separation benefits offered by Investar under this Agreement;

NOW, THEREFORE, Investar and Employee agree as follows:

1. **Severance Payment.** In consideration of Employee's waiver and release of claims expressed in paragraph 2 below ("Employee's Release") and Employee's other promises and covenants under this Agreement, Investar agrees to provide Employee with a lump sum payment in the gross amount of \$95,000.00 (the "Severance Payment"). Provided that Employee abides by all terms of this Agreement, the Severance Payment shall be made to Employee in a single lump sum no later than thirty (30) calendar days following Employee's execution and acceptance of this Agreement; provided, however, that Investar reserves the right to void the Agreement at any time before payment of the Severance Payment. Upon payment of the Severance Payment, the Agreement will be final and binding on the parties. The Severance Payment shall be subject to all applicable payroll withholding taxes and included in Employee's W-2 income for the year 2021. Employee accepts sole responsibility for the payment of any additional taxes due or claimed to be due by any taxing authority on the Severance Payment. The Severance Payment provided under this Agreement is intended to satisfy the requirements of the "short-term deferral" and/or severance pay exceptions to Internal Revenue Code Section 409A regarding deferred compensation. However, Investar makes no representations, warranties or guarantees regarding the tax treatment of the Severance Payment.

2. **Waiver and Release.**
 - 2.1. **Claims Released.** In consideration of the Severance Payment and Investar's other promises and covenants under this Agreement, Employee hereby and forever, irrevocably and unconditionally, releases, acquits, and discharges Investar, its parent company Investar Holding Corporation ("Parent") and their respective past, present, or future parents, subsidiaries and affiliates, regardless of the form of entity in which maintained, shareholders, officers, directors, managers, members, partners, owners, agents, trustees, administrators, insurers, attorneys, employees, and employee benefit plans or funds and their fiduciaries, including any predecessors, successors and/or assigns thereto (collectively, the "Protected Parties") from any and all liability for any and all claims, demands, or causes of action of whatever kind or nature, known or unknown, asserted or unasserted, including, but not limited to, any and all claims arising out of Employee's employment with the Protected Parties or the termination of such employment under any federal or state statute, law or regulation including, but not limited to, Title VII of the Civil Rights Act of 1964, 42 U.S.C. §§ 2000e *et seq.*; the Americans With Disabilities Act, 42 U.S.C. §§ 12101 *et seq.*; the Family and Medical Leave Act, 29 U.S.C. §§ 2601 *et seq.*; and the Employee Retirement Income Security Act, 29 U.S.C. §§ 101 *et seq.*; any and all claims in contract, implied contract, tort or otherwise for wrongful or constructive discharge, abuse of right, defamation, intentional or negligent infliction of emotional distress; and any and all claims for salary, wages, bonuses, commissions, vacation pay, sick pay, severance pay, or other current or deferred compensation or benefits of any kind under any other plan, policy, contract, or agreement and any penalties or attorney fees in connection therewith.

 - 2.2. **Charges.** Employee's Release does not prohibit Employee from filing an administrative charge with United States Equal Employment Opportunity Commission or any other governmental agency or from providing support in connection with such a charge filed by any other person; provided, however, that Employee waives his right to participate in any monetary relief or recovery and agrees not to accept any such monetary relief or recovery in connection with any state, local, federal, or administrative proceeding filed on his behalf or for his benefit by any governmental agency or individual related to any matter covered by Employee's Release.

 - 2.3. **Claims Retained.** Notwithstanding the generality of the foregoing Section 2.1, Employee does not waive or release any right or claim: (a) arising after the date on which Employee executes this Agreement; (b) ordinary claims for benefits accrued and vested or due as of his or her termination of employment under any benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended, or other benefit plan or arrangement sponsored and maintained by the Protected Parties (although Employee acknowledges that all unvested equity awards and other unvested benefits received from the Protected Parties as of the Resignation Date, including without limitation the unvested benefits under the Salary Continuation Agreement dated as of February 28, 2018, shall be forfeited); (c) any claim for compensation or benefits that cannot be waived as a matter of public policy; and (d) any right to indemnification that Employee may possess as an officer or employee of any of the Protected Parties to the fullest extent provided under the indemnification and insurance arrangements or governing documents of such parties or applicable law.

3. **Return of Property.** As further conditions of receipt of the Severance Payment described above, Employee agrees to return his office key card, company-issued computer, and any confidential or proprietary Protected Party documents on or before his Resignation Date.

4. **Nondisparagement.** Employee agrees and covenants that Employee shall not at any time make, publish, or communicate to any person or entity or in any public forum any defamatory or disparaging remarks, comments, or statements concerning Investar or Parent or their businesses, or any of their employees, officers, or directors now or in the future. Nothing herein in any way restricts or impedes Employee from exercising protected rights, including

rights under the National Labor Relations Act (NLRA) or the federal securities laws, including the Dodd-Frank Act, to the extent that such rights cannot be waived by agreement or from complying with any applicable law or regulation or a valid order of a court of competent jurisdiction or an authorized government agency, provided that such compliance does not exceed that required by the law, regulation, or order. Employee shall promptly provide written notice of any such order to Tom Aldrich, Chief Human Resources Officer, Investar Bank, 10500 Coursey Boulevard, 2nd Floor, Baton Rouge, LA 70816.

5. **Confidentiality.**

- 5.1. Employee shall hold in a fiduciary capacity for the benefit of the Investar and Parent all Confidential Information relating to Investar and Parent, and their respective businesses, which shall have been obtained by Employee during Employee's employment by Investar or any of its affiliates and which shall not be or become public knowledge (other than by acts by Employee or representatives of Employee in violation of the Agreement). Employee shall not, without the prior written consent of Investar or as may otherwise be required by law or legal process, communicate or divulge any such Confidential Information to anyone other than Investar, Parent and those designated by them.
- 5.2. For purposes of the Agreement, "Confidential Information" shall mean any information, knowledge or data of any nature and in any form (including information that is electronically transmitted or stored on any form of magnetic or electronic storage media) relating to the past, current or prospective business or operations of Parent and its subsidiaries, that at the time or times concerned is not generally known to persons engaged in businesses similar to those conducted or contemplated by Parent and its subsidiaries (other than information known by such persons through a violation of an obligation of confidentiality to Parent), whether produced by Parent and its subsidiaries or any of their consultants, agents or independent contractors or by Employee, and whether or not marked confidential, including without limitation information relating to Parent's or its subsidiaries' products and services, business plans, business acquisitions, processes, product or service research and development ideas, methods or techniques, training methods and materials, and other operational methods or techniques, quality assurance procedures or standards, operating procedures, files, plans, specifications, proposals, drawings, charts, graphs, support data, trade secrets, supplier lists, supplier information, purchasing methods or practices, distribution and selling activities, consultants' reports, marketing and engineering or other technical studies, maintenance records, employment or personnel data, marketing data, strategies or techniques, financial reports, budgets, projections, cost analyses, price lists, formulae and analyses, employee lists, customer records, customer lists, customer source lists, proprietary computer software, and internal notes and memoranda relating to any of the foregoing.
- 5.3. Notwithstanding the foregoing, Employee may have certain rights under the Defend Trade Secrets Act of 2016, Pub. L. 114-153, which provides that an individual shall not be held criminally or civilly liable under any federal or state trade secret protection law for the disclosure of a trade secret that: (A) is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual: (X) files any document containing the trade secret under seal; and (Y) does not disclose the trade secret, except pursuant to court order.
6. **Voluntary Nature of Agreement.** It is expressly understood and agreed by Employee that the Severance Payment is separate and distinct from and in addition to any compensation or benefits to which he would be entitled in the absence of his acceptance of this Agreement and that he would have no right to receive the Severance Payment but for his acceptance of this Agreement. Employee acknowledges that he has accepted and signed this Agreement voluntarily and that his acceptance is not based upon any representations or promises of any kind made by Investar or any of its representatives except as expressly stated in this Agreement. Employee further acknowledges that he has been given a reasonable period of three (3) days to consider and sign this Agreement (after which time this offer shall be deemed revoked); and that he has considered this Agreement and consulted with legal or other counsel to the full extent desired and freely accepts this Agreement, understanding fully all of its terms and conditions.
7. **No Admission.** This Agreement and the Severance Payment are in no way to be construed as an admission by any of the Protected Parties of any liability to Employee or fault arising from Employee's employment by or separation from Investar.
8. **Breach of Agreement.** In the event Employee breaches any of his obligations under this Agreement, expressly including his obligations under Paragraphs 2, 3, 4, and 5, the severance benefits provided by this Agreement shall be forfeited and all amount(s) paid to Employee under this Agreement shall be due and payable by Employee to Investar immediately. Further, in the event Investar prevails in any legal action to recover amounts due under this Paragraph 8, Employee also shall be liable for Investar's reasonable attorney fees and court costs.
9. **Enforceability.** If any term or provision of this Agreement or the application thereof to any person or circumstance, shall at any time or to any extent be held invalid, illegal or unenforceable in any respect as written, Employee and Investar intend for any court construing this Agreement to modify or limit such term or provision so as to render it valid and enforceable to the fullest extent allowed by law. Any such term or provision that is not susceptible of such reformation shall be ignored so as not to affect any other term or provision hereof, and the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable, shall not be affected thereby, and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.
10. **Entire Agreement.** This Agreement sets forth the entire agreement between Employee and Investar concerning the termination of Employee's employment, and there are no other agreements or understandings between the parties related thereto except as expressly acknowledged by Employee

herein. This Agreement shall be binding upon and inure to the benefit of Investar, Parent, Employee and their respective heirs, successors or assigns.

INVESTAR
BANK

EMPLOYEE

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

/s/ Travis Lavergne
Travis Lavergne

July 9, 2021
DATE OFFERED

July 9, 2021
DATE ACCEPTED

CERTIFICATIONS

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

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2022 of Investar Holding Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2022

/s/ John J. D'Angelo

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

CERTIFICATIONS

I, Christopher L. Hufft, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2022 of Investar Holding Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2022

/s/ Christopher L. Hufft

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

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

In connection with the quarterly report on Form 10-Q of Investar Holding Corporation (the “Company”) for the period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John J. D’Angelo, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 4, 2022

/s/ John J. D’Angelo

John J. D’Angelo

President and Chief Executive Officer
(Principal Executive Officer)

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

In connection with the quarterly report on Form 10-Q of Investar Holding Corporation (the “Company”) for the period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christopher L. Hufft, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 4, 2022

/s/ Christopher L. Hufft

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