INVESTAR®
HOLDING CORPORATION

2022 Annual Report

INVESTAR
HOLDING CORPORATION

Dear Shareholders:

We are pleased to report that 2022 was another strong year for Investar, with record annual net income and solid organic growth. Although 2022 presented unique challenges – from the rapidly rising interest rate environment to the impact of inflation – our team overcame these challenges and continued to deliver Investar's quality service to our clients and communities.

Our 2022 financial results are highlighted by net income of $35.7 million, diluted earnings per share of $3.50, return on average assets of 1.37% and return on average equity of 15.63%. Total assets grew 10% to $2.8 billion in 2022, and our total loan portfolio increased 12% compared to the prior year to an all-time high of over $2.1 billion. Asset quality metrics returned to the solid levels Investar has historically experienced in our loan portfolio. Net recoveries were an impressive 0.03% of average loans for the year, and nonperforming loans to total loans were 0.54% at the end of the year. Our Annual Report on Form 10-K, which follows this letter, provides a detailed discussion of our financial performance for 2022.

Investar Bank remains well-capitalized and focused on our core mission of meeting the needs of individuals, professionals and small to medium-sized businesses in our Louisiana, Texas and Alabama markets. We primarily make loans and attract deposits in our local markets with a large majority of our deposit accounts being fully FDIC insured. We will continue to focus on growing loans with good credit quality and on expanding our deposit market share.

Our company has an uninterrupted history of paying quarterly dividends to common shareholders since 2011. Due to our strong financial performance, we returned approximately $3.6 million to shareholders through quarterly cash dividends totaling $0.365 per share for 2022, an 18% increase from total quarterly dividends in 2021. We paid $10.5 million to repurchase our shares during 2022. As of December 31, 2022, we had repurchased 2,313,286 shares of our common stock at an average price of $19.33 since the inception of our stock repurchase program in 2015, and we had 386,714 remaining shares authorized for repurchase under our current stock repurchase plan.

Moving into 2023, we believe we are well positioned for further growth. Our management team is identifying opportunities and executing strategies that we believe are sustainable and add long-term value for our shareholders. As we strategically transition into a more digital banking environment, we are evaluating more opportunities to improve our branch network efficiency, further reduce costs and improve our core metrics. We strive to provide the highest level of service to our customers, and we are investing in technology and systems that improve our customers' experiences and enhance our operational efficiencies. We believe our customers appreciate our devotion to service excellence, and we are excited to share it with new customers in our existing markets and in new markets.

To our loyal customers and dedicated employees – thank you for working together to achieve another successful year. To our shareholders – thank you for your support of and investment in Investar.

Sincerely,

John J. D'Angelo
President & Chief Executive Officer

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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	**27-1560715**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

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

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

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

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

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

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

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

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

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

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price of the common stock as of June 30, 2022, was approximately $204.4 million.

The number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date, is as follows: Common stock, $1.00 par value per share, 9,912,172 shares outstanding as of March 6, 2023.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement relating to the 2023 Annual Meeting of Shareholders of Investar Holding Corporation are incorporated by reference into Part III of the Form 10-K. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2022.

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PART I

Item 1. Business

General

Investar Holding Corporation (the "Company"), a Louisiana corporation incorporated in 2009, is a financial holding company headquartered in Baton Rouge, Louisiana that conducts its operations primarily through its wholly-owned subsidiary, Investar Bank, National Association (the "Bank"), a national bank chartered by the Office of the Comptroller of Currency ("OCC"). The Bank was originally chartered as a Louisiana commercial bank in 2006 and converted to a national bank in July 2019. Through the Bank, the Company offers a wide range of commercial banking products tailored to meet the needs of individuals, professionals, and small to medium-sized businesses. Our primary areas of operation are south Louisiana, including Baton Rouge, New Orleans, Lafayette, Lake Charles, and their surrounding areas; southeast Texas, primarily Houston and its surrounding area; and Alabama, including York and Oxford and their surrounding areas. These markets are served from our executive and operations center located in Baton Rouge and from 29 full service branches located throughout our market areas. We have experienced significant growth since the Bank was chartered, completing seven whole-bank acquisitions and establishing additional branches in our market areas.

As of December 31, 2022, on a consolidated basis, the Company had total assets of $2.8 billion, net loans of $2.1 billion, total deposits of $2.1 billion, and stockholders' equity of $215.8 million.

In order to improve efficiencies and leverage our digital initiatives, during the last three fiscal years we closed five branches and sold three tracts of land held for future branch locations. In January 2023, we completed the sale of two branches, and we plan to consolidate an additional branch in our Louisiana market in 2023. Over time, management believes that we have significant opportunities for growth and franchise expansion, both organically and through strategic acquisitions. Although the financial services industry is rapidly changing and intensely competitive, and likely to remain so, we believe that the Bank competes effectively as a local community bank and possesses the availability of local access and responsive customer service, coupled with competitively-priced products and services, necessary to successfully compete with other financial institutions for individual and small to medium-sized business customers.

The information set forth in this Annual Report on Form 10-K is as of March 8, 2023, unless otherwise indicated herein.

Operations

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

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

Lending Activities. Income generated by our lending activities represents a substantial portion of our total revenue. For the years ended December 31, 2022, 2021 and 2020, income from our lending activities comprised 76%, 84%, and 83%, respectively, of our total revenue. Over the last three fiscal years, we have increased our focus on commercial real estate loans and commercial and industrial loans.

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

- *Commercial real estate loans*. Approximately 50% of our total loans at December 31, 2022 were commercial real estate loans, which include multifamily, farmland and commercial real estate loans, with owner-occupied loans comprising approximately 42% of the commercial real estate loan portfolio. Commercial real estate loan terms generally are 10 years or less, although payments may be structured on a longer amortization basis. Interest rates may be fixed or adjustable, although rates typically will not be fixed for a period exceeding 120 months, and we generally charge an origination fee. Risks associated with commercial real estate loans include, among other things, fluctuations in the value of real estate, new job creation trends, tenant vacancy rates, and the quality of the borrower's management. We attempt to limit risk by analyzing a borrower's cash flow and collateral value on an ongoing basis. Also, we typically require personal guarantees from the principal owners of the property, supported by a review of their personal financial statements, as an additional means of mitigating our risk. We also manage risk by avoiding concentrations in any one business or industry.

- *Commercial and industrial loans*. Commercial and industrial loans primarily consist of working capital lines of credit and equipment loans. The terms of these loans vary by purpose and by type of underlying collateral. We make equipment loans for a term of five years or less at fixed or variable rates, with the loan fully amortized over the term and secured by the relevant piece of equipment. Loans to support working capital typically have terms not exceeding one year, and such loans are secured by accounts receivable or inventory. Fixed rate loans are priced based on collateral, term and amortization. The interest rate for floating rate loans is typically tied to the prime rate published in The Wall Street Journal. Commercial and industrial loans also include public finance loans made to governmental entities, which can be taxable or tax-exempt, for purposes including debt refinancing, economic development, quality of life projects, short-term cash-flow needs, and infrastructure enhancements, among other things. Public finance loans are generally repaid using pledged revenue sources including income tax, property tax, sales tax, and utility revenue, among other sources. Although public finance loans are less than 5% of our loan portfolio as of December 31, 2022, they have grown in recent periods. Commercial and industrial loans accounted for approximately 21% of our total loans at December 31, 2022.

Commercial lending generally involves different risks from those associated with commercial real estate lending or construction lending. Although commercial loans may be collateralized by equipment or other business assets (including real estate, if available as collateral), the repayment of these types of loans depends primarily on the creditworthiness and projected cash flow of the borrower (and any guarantors). Thus, the general business conditions of the local economy and the borrower's ability to sell its products and services, thereby generating sufficient operating revenue to repay us under the agreed upon terms and conditions, are the chief considerations when assessing the risk of a commercial loan. The liquidation of collateral, if any, is considered a secondary source of repayment because equipment and other business assets may, among other things, be obsolete or of limited resale value. We actively monitor certain financial measures of the borrower, including advance rate, cash flow, collateral value and other appropriate credit factors. We also manage risk by avoiding concentrations in any one business or industry.

- *Construction and development loans*. Construction and development loans, which consist of loans for the construction of commercial projects, single family residential properties and multifamily properties, accounted for approximately 9% of our total loans at December 31, 2022. Our construction and development loans are made on both a "pre-sold" basis and on a "speculative" basis. Construction and development loans are generally made with a term of 6 to 18 months, with interest accruing at either a fixed or floating rate and paid monthly. These loans are secured by the underlying project being built. For construction loans, loan to value ratios range from 70% to 80% of the developed/completed value, while for development loans our loan to value ratios typically will not exceed 70% to 75% of such value. Speculative loans are based on the borrower's financial strength and cash flow position, and we disburse funds in installments based on the percentage of completion and only after the project has been inspected by an experienced construction lender or third-party inspector.

Construction lending entails significant additional risks compared to commercial real estate or residential real estate lending due to the dynamics of construction projects, changes in interest rates, the long-term financing market, and state and local government regulations. One such risk is that loan funds are advanced upon the security of the property under construction, which is of uncertain value prior to the completion of construction. Thus, it is more difficult to accurately evaluate the total loan funds required to complete a project and to calculate related loan-to-value ratios. We attempt to minimize the risks associated with construction lending by limiting loan-to-value ratios as described above. In addition, as to speculative development loans, we generally make such loans only to borrowers that have a positive pre-existing relationship with us. We also manage risk by using specific underwriting policies and procedures for these types of loans and by avoiding excessive concentrations in any one business or industry.

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

- *Residential real estate*. 1-4 family residential real estate loans, including second mortgage loans, comprised approximately 19% of our total loans at December 31, 2022. Second mortgage loans in this category include only loans we make to cover the gap between the purchase price of a residence and the amount of the first mortgage; all other second mortgage loans are considered consumer loans. Loan to value ratios do not typically exceed 80%, although some of the mortgage loans that we retain in our portfolio may have higher loan to value ratios. We use an independent appraiser to establish collateral values. We generate residential real estate mortgage loans through

Bank referrals and contacts with real estate agents in our markets. We do not originate subprime residential real estate loans.

- *Consumer loans*. Consumer loans represented 1% of our total loans at December 31, 2022. We make these loans (which are normally fixed-rate loans) to individuals for a variety of personal, family and household purposes, secured and unsecured installment and term loans, second mortgages, home equity loans and home equity lines of credit. Because many consumer loans are secured by depreciable assets such as cars, boats and trailers, the loans are amortized over the useful life of the asset. The amortization of second mortgages generally does not exceed 15 years and the rates generally are not fixed for more than 60 months. As a general matter, in underwriting these loans, our credit analysts review a borrower's past credit history, credit scores, past income level, debt history and, when applicable, cash flow, debt to income ratio, and payment to income, and determine the impact of all these factors on the ability of the borrower to make future payments as agreed. A comparison of the value of the collateral, if any, to the proposed loan amount, is also a consideration in the underwriting process. Repayment of consumer loans depends upon key consumer economic measures and upon the borrower's financial stability and is more likely to be adversely affected by divorce, job loss, illness and personal hardships than repayment of other loans. A shortfall in the value of any collateral also may pose a risk of loss to us for these types of loans.

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

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

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

Acquisition Activity

General. From time to time we evaluate potential acquisition opportunities including whole-bank acquisitions and strategic branch acquisitions. We believe there are many banking institutions that continue to face credit challenges, capital constraints and liquidity issues and that lack the scale and management expertise to manage the increasing regulatory burden. Our management team has a long history of identifying targets, assessing and pricing risk and executing acquisitions in a creative, yet disciplined, manner. We seek acquisitions that provide meaningful financial benefits, long-term organic growth opportunities and expense reductions, without compromising our risk profile. Additionally, we seek banking markets with favorable competitive dynamics and potential consolidation opportunities.

Recent Acquisitions. All of our acquisition activity is evaluated and overseen by a standing Mergers and Acquisitions Committee of our board of directors. A discussion of acquisitions completed since January 1, 2020, is set forth under the heading "*Certain Events That Affect Year-over-Year Comparability – Acquisitions*" in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Divestiture and Sale or Closure Activity

Sale of two branches to First Community Bank. On January 27, 2023, the Bank completed its previously announced sale of certain assets, deposits and other liabilities associated with its Alice and Victoria, Texas locations to First Community Bank, a Texas state bank located in Corpus Christi, Texas. The Bank sold approximately $13.9 million in loans and $14.5 million in deposits.

Branch closures and land sales. During the last three fiscal years, we closed five branches and sold three tracts of land held for future branch locations. Four of the branches had been acquired, and the closures involved anticipated synergies that resulted in significant cost savings. We plan to consolidate an additional branch located in our Louisiana market in 2023. We continue to evaluate opportunities to reduce our physical branch footprint and further improve efficiency through digital initiatives.

De Novo Branches

During our last three fiscal years, we have opened two full-service branch locations in Louisiana, consisting of one location in the Lake Charles market, and one location in the New Orleans market, in addition to the branches we acquired through our acquisition activity. We do not expect to open de novo branches in 2023.

Competition

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

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

The following table sets forth certain information about our total deposits, and our share of total deposits, in specified locations, and is shown as of June 30, 2022, which is the latest date for which such information is available.

Location	Investar Total Deposits	Investar Share of Deposits
	(in millions)	
Baton Rouge, Louisiana	$ 756	2.9%
New Orleans, Louisiana	263	0.5
Lafayette, Louisiana	259	2.9
Evangeline Parish, Louisiana(1)	160	21.3
East and West Feliciana Parishes, Louisiana(1)	150	24.4
Calcasieu Parish, Louisiana(1)	11	0.2
Houston, Texas	144	0.0
Sumter County, Alabama(1)	107	38.7
Calhoun County, Alabama(1)	190	8.0

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

Supervision and Regulation

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

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

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

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

The Dodd-Frank Act, among other things:

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

Some of these provisions have had and may continue to have the consequence of increasing our expenses, decreasing our revenues, and changing the activities in which we choose to engage. Many aspects of the Dodd-Frank Act are subject to ongoing implementation; further, in the past certain provisions implemented by federal agencies have been legislatively revised or rescinded. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our financial condition and results of operations.

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

Regulatory Capital Requirements

Capital Adequacy. The Federal Reserve Board monitors the capital adequacy of the Company, on a consolidated basis, and the OCC monitors the capital adequacy of the Bank. The regulatory agencies use a combination of risk-based guidelines and a leverage ratio to evaluate capital adequacy and consider these capital levels when taking action on various types of applications and when conducting supervisory activities related to safety and soundness. The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among financial institutions and their holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. A financial institution's assets and off-balance sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. Regulatory capital, in turn, is classified in one of two tiers. "Tier 1" capital includes two components: (1) common equity Tier 1 capital and (2) additional Tier 1 capital. Common equity Tier 1 capital consists solely of common stock (plus related surplus), retained earnings and limited amounts of minority interests that are in the form of common stock. Additional Tier 1 capital includes other perpetual instruments historically included in Tier 1 capital, such as non-cumulative perpetual preferred stock. "Tier 2" capital includes, among other things, qualifying subordinated debt and allowances for loan and lease losses, subject to limitations. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. Pursuant to the regulatory capital rules, the Company has made an election not to include unrealized gains and losses in the investment securities portfolio for purposes of calculating "Tier 1" capital and "Tier 2" capital.

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

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

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

We were in compliance with all applicable minimum regulatory capital requirements, including the capital conservation buffer, as of December 31, 2022.

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

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

Furthermore, the U.S. federal banking agencies have finalized rules that permit bank holding companies and banks to phase-in, for regulatory capital purposes, the day-one impact of the new current expected credit loss accounting rule in retained earnings over a period of three years commencing with time of adoption of the new standard. For further discussion of the new current expected credit loss accounting rule, see Note 1. Summary of Significant Accounting Policies – Recent Accounting Pronouncements, in the Notes to Consolidated Financial Statements contained in *Item 8. Financial Statements and Supplementary Data* and also see “*Our allowance for loan losses may prove to be insufficient to absorb losses inherent in our loan portfolio, and we may be required to further increase our provision for loan losses*” in *Item 1A. Risk Factors*.

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

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

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

The capital classification of a bank affects the frequency of regulatory examinations, the bank’s ability to engage in certain activities, and the deposit insurance premiums paid by the bank. As of December 31, 2022, the Bank met the requirements to be categorized as well capitalized under the prompt corrective action framework as currently in effect.

Acquisitions by Bank Holding Companies

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

If the Bank seeks to acquire another depository institution or branches of another depository institution, it is required to obtain the prior approval of the OCC. In reviewing the application, the OCC will consider, among other things, the Bank's capital level, its financial and managerial resources and future prospects, the impact of the transaction on the Bank's safety and soundness, the impact of the transaction on competition in the relevant geographic market, its record in combating money laundering activities, the impact on the convenience and needs of the communities served, and the Bank's record of Community Reinvestment Act performance.

Scope of Permissible Bank Holding Company Activities

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

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

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

Source of Strength Doctrine for Bank Holding Companies

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

Dividends

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

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

Restrictions on Transactions with Affiliates and Loans to Insiders

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

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

Incentive Compensation Guidance

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

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

Deposit Insurance Assessments

FDIC insured banks are required to pay deposit insurance assessments to the FDIC. The amount of the assessment is based on the size of the bank’s assessment base, which is equal to its average consolidated total assets less its average tangible equity, and its risk classification under an FDIC risk-based assessment system. Institutions assigned to higher risk classifications (that is, institutions that pose a higher risk of loss to the Deposit Insurance Fund) pay assessments at higher rates than institutions that pose a lower risk. An institution’s risk classification is assigned based on certain financial data and the level of supervisory concern that the institution poses to the regulators. In addition, the FDIC can impose special assessments in certain instances. As noted above, the Dodd-Frank Act changed the way that deposit insurance premiums are calculated. Action by the FDIC to replenish the Deposit Insurance Fund when needed could result in higher assessment rates, which could reduce our profitability or otherwise negatively impact our operations. The FDIC issued a final rule in October 2022 increasing deposit insurance assessments beginning in the first quarterly assessment period of 2023.

Branching and Interstate Banking

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

Community Reinvestment Act

The Bank is required under the Community Reinvestment Act, or CRA, and related OCC regulations to help meet the credit needs of its communities, including low and moderate-income borrowers. In connection with its examination of the Bank, the OCC assesses our record of compliance with the CRA. The Bank's failure to comply with the provisions of the CRA could, at a minimum, result in denial of certain corporate applications, such as branches or mergers, or in restrictions on its or the Company's activities. The Bank received a "Satisfactory" CRA rating on its most recent CRA Performance Evaluation. The CRA requires all FDIC-insured institutions to publicly disclose their rating. The federal banking agencies have proposed changes intended to modernize the CRA regulations, but at present such changes have not been finalized.

Concentrated Commercial Real Estate Lending Regulations

The federal bank regulatory agencies have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Owner-occupied loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address, among other things, board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending. At December 31, 2022, the Company did not have a concentration in commercial real estate as defined by the regulatory guidance.

Financial Privacy and Cybersecurity Requirements

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

Federal law and regulations also establish certain information security guidelines that require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to develop, implement, and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. Under federal guidance, banks have to provide notice to affected customers of a data breach under certain circumstances, and the agencies recently adopted a rule requiring notice to the primary federal regulator within certain timeframes for certain data security incidents.

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

Consumer Laws and Regulations

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

In addition, the Dodd-Frank Act created the Consumer Financial Protection Bureau that has broad authority to regulate and supervise retail financial services activities of banks and various non-bank providers. The Bureau has authority to promulgate regulations, issue orders, guidance and policy statements, conduct examinations and bring enforcement actions with regard to consumer financial products and services. In general, however, banks with assets of $10 billion or less, such as the Bank, will continue to be examined for consumer compliance by their primary federal bank regulator. In October 2022, the U.S. Court of Appeals for the 5th Circuit issued a decision ruling that the Consumer Financial Protection Bureau's funding mechanism violates the separation-of-powers principles embodied in the U.S. Constitution's Appropriations Clause. This ruling has essentially called into question the validity of the Bureau's authority to issue regulations and pursue enforcement actions. The Bureau recently filed a certiorari petition with the U.S. Supreme Court seeking an expedited hearing and decision to clarify the agency's authority. We believe that the banking industry generally will continue complying with the Bureau's regulations until clarity is provided.

There has been an enhanced focus by federal bank regulatory agencies with respect to industry practices relating to overdraft fees and non-sufficient funds fees. For example, the Consumer Financial Protection Bureau issued a Request for Information in January 2022 seeking public input with respect to financial institution practices relating to, among other areas, credit card fees, overdraft fees and non-sufficient funds fees and stated its intent to reduce these types of fees through crafting rules, issuing industry guidance and focusing supervision and enforcement resources to achieve this goal. In October 2022, the Consumer Financial Protection Bureau issued guidance with respect to certain practices relating to overdraft fees and bounced check fees. The FDIC issued guidance in August 2022 with respect to bank practices involving charging multiple non-sufficient funds fees on the representment of items on a deposit account.

Mortgage Lending Rules

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

Anti-Money Laundering and OFAC

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

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

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

Safety and Soundness Standards

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

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

Effect of Governmental Monetary Policies

The commercial banking business is affected not only by general economic conditions but also by U.S. fiscal policy and the monetary policies of the Federal Reserve. Some of the instruments of monetary policy available to the Federal Reserve include changes in the discount rate on member bank borrowings, the fluctuating availability of borrowings at the "discount window," open market operations, the imposition of and changes in reserve requirements against member banks' deposits and assets of foreign branches, and the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates. These policies influence to a significant extent the overall growth of bank loans, investments, and deposits and the interest rates charged on loans or paid on deposits. For example, during 2022 and in 2023 the Federal Open Market Committee of the Federal Reserve increased the target rate range for trading in the federal funds market (known as the federal funds target rate or the federal funds rate) multiple times, increasing market interest rates. The federal funds rate is the rate at which commercial banks borrow and lend their excess reserves to each other overnight. We cannot predict the nature of future fiscal and monetary policies and the effect of these policies on our future business and earnings.

Future Legislation and Regulatory Reform

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

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

Human Capital Resources

Our business is built on relationships with our customers, our community, and most of all, our employees. We are committed to providing quality service and products to the consumers and businesses within the markets we serve. We strive to create superior shareholder value by attracting and retaining exceptional employees who are highly motivated and well trained.

Our compensation strategy provides a total rewards structure that reflects position responsibilities, is competitive with the external market, and is capable of attracting, retaining, and motivating our employees. We provide a comprehensive benefits package for eligible employees which includes group health (medical, dental, and vision) insurance including a health savings account option, paid time off, short and long term disability insurance, life insurance and a 401(k) plan in which we provide a matching contribution. We also offer eligible employees participation in our Employee Stock Ownership Plan (ESOP) as well as our Long Term Incentive plan (LTI) in order to better align employee and shareholder interests.

We provide employees with robust training programs that promote employee development and effectiveness by providing high-quality curriculums designed to meet individual, departmental and Bank-wide objectives. This includes mentorships, 1-on-1 job shadowing, classroom training, and computer-based training.

We believe employing a diverse and inclusive workforce strengthens our ability to serve our customers and our communities, which is a key component of our success. To that end, we are a proud equal opportunity employer committed to attracting, retaining and promoting employees regardless of sex, sexual orientation, gender identity, race, color, national origin, age, religion and physical ability. We do not tolerate illegal discrimination or harassment and encourage employees to immediately report any violations to management and human resources.

As of December 31, 2022, we had 331 full-time and seven part-time employees. None of our employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement. We believe that our relations with our employees are good.

Available Information

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

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

Item 1A. Risk Factors

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

Risks Related to our Business

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

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the primary markets where we operate and in the U.S. as a whole. We are facing an uncertain economic environment. While disruptions caused directly by the COVID-19 pandemic decreased during 2022 and the economy continued to recover from pandemic lows, the U.S. economy experienced rapidly rising inflation and interest rates, labor shortages, supply chain issues and volatile commodity and financial markets, exacerbated by the Russian invasion of Ukraine that began in February 2022. During the entirety of 2021, the Federal Reserve's federal funds target rate was 0% to 0.25% and it remained at that rate until March 2022. During 2022, the Federal Reserve increased the federal funds target rate seven times from a range of 0% to 0.25% to a range of 4.25% to 4.50%. The Federal Reserve increased the target rate again on February 1, 2023 to 4.50% to 4.75% and may increase the rate additional times during 2023. Also during 2022, the S&P 500 Index declined approximately 19%. The U.S. government reached the statutory debt limit on January 19, 2023 and the U.S. Department of the Treasury began to implement extraordinary measures to meet the obligations of the U.S. Treasury officials have projected that extraordinary measures should be effective until June 2023, although the exact time is uncertain. If the U.S. Congress does not act to raise the statutory debt limit, the federal government may be forced to shut down and the U.S. may default on its debt.

Uncertain economic and market conditions can also be caused by declines in economic growth, business activity, investor or business confidence, declines in real estate values, pandemics (such as the COVID-19 pandemic and resurgences of COVID-19 outbreaks) or fear of pandemics, rising unemployment, increases in the cost of credit and capital as experienced during 2022, limitations on the availability of credit and capital, natural disasters, or a combination of these or other factors.

In addition, geopolitical matters, including international political unrest, disruptions in international trade patterns, and slow growth in sectors of the global economy, as well as acts of terrorism, war and other violence could result, and in the case of the war in Ukraine, has resulted, in disruptions or volatility in the economy and financial and commodity markets.

Economic uncertainty and negative events in the economy or in geopolitical matters could have a material adverse effect on our business, results of operations and financial condition, including our liquidity position. Among other things, they may result in higher than expected loan delinquencies, a decline in the value of collateral securing our loans, instability in our deposit base, further increases in our costs of capital, disruptions in our ability to complete acquisitions, and a decline in demand for our products and services. They may cause us to incur losses, including losses on loans beyond those provided for in our allowance for loan losses, and losses in our investment securities portfolio, impairments of assets including goodwill, and may adversely impact our regulatory capital.

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

The majority of our assets and liabilities are monetary in nature and, as a result, we are subject to significant risk from changes in interest rates. Changes in interest rates may affect our net interest income as well as the valuation of our assets and liabilities. We cannot predict with certainty changes in interest rates, which are affected by many factors beyond our control, including inflation, recession, unemployment, money supply, competition for loans and deposits, domestic and international events, changes in the United States and other financial markets, and the policies of the Federal Reserve. Inflation reached a near 40-year high in late 2021, driven in large part by economic recovery from the ongoing COVID-19 pandemic, and continued to be high during 2022 and into 2023. In response, the Federal Reserve raised interest rates seven times in 2022 and on February 1, 2023, as described above, which resulted in an increase in market interest rates, and may increase the rate additional times during 2023. Our earnings depend significantly on our net interest income, which is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. We expect to periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates move contrary to our position, this "gap" may work against us, and our earnings may be adversely affected. When interest-bearing liabilities mature or reprice more quickly, or to a greater degree than interest-earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly, or to a greater degree than interest-bearing liabilities, falling interest rates could reduce net interest income.

Additionally, an increase in the general level of interest rates may also, among other things, adversely affect our current borrowers' ability to repay variable rate loans, the demand for and our ability to originate loans, negatively affect the value of our investment securities portfolio, and decrease loan prepayment rates, or could increase the cost of the Company's deposits and borrowings. For example, during the rapidly rising interest rate environment in 2022, comparing the twelve months ended December 31, 2021 and December 31, 2022, respectively, our yield on interest-earning assets increased from 4.02% to 4.28% while the cost of our total interest-bearing liabilities increased from 0.67% to 0.84%, producing a 14 basis point increase in our net interest margin from 3.53% to 3.67%. During 2022, as we raised rates offered on deposits and incurred higher costs on our borrowings, comparing the three months ended December 30, 2021 and the three months ended December 31, 2022, respectively, our yield on interest-earning assets increased from 3.95% to 4.57% while the cost of our total interest-bearing liabilities increased from 0.52% to 1.45%, producing a seven basis point decrease in our net interest margin from 3.57% to 3.50%. We may experience additional pressure on our net interest margin during 2023 if our cost of funds increases faster than the yield on our interest-earning assets. Additionally, due in large part to higher interest rates and market volatility during 2022, at December 31, 2022, unrealized losses in our investment portfolio totaled $62.5 million. These losses may continue or worsen during 2023, and we may experience realized losses in our portfolio.

An increase in the general level of interest rates could not only result in increased loan defaults, foreclosures and charge-offs, but also necessitate further increases to the allowance for loan losses. At the same time, the marketability and value of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income, but we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.

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

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

Inflation and rising prices may continue to adversely affect our results of operations and financial condition.

Inflation reached a near 40-year high in late 2021, and high levels of inflation persisted during 2022 and may continue in 2023. The U.S. Bureau of Labor Statistics reported that the 12-month percent change in the Consumer Price Index for All Urban Consumers (not seasonally adjusted) for all items was 6.5% for December 2021 to December 2022, 7.0% for December 2020 to December 2021, 1.4% for December 2019 to December 2020, and 2.3% for December 2018 to December 2019. Inflation increases our borrower's costs of living and costs of doing business, which may make it more difficult for them to repay their loans, increasing our credit risk. Inflation also increases many of our operating costs. 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. In addition, inflation has led to the Federal Reserve raising interest rates during 2022 and 2023, as discussed above.

Our allowance for loan losses may prove to be insufficient to absorb losses inherent in our loan portfolio, and we may be required to further increase our provision for loan losses. This risk may be heightened by our adoption of the Current Expected Credit Loss accounting standard effective January 1, 2023.

Our business depends on our ability to successfully measure and manage credit risk. As a lender, we are exposed to the risk that the principal of and interest on a loan will not be paid timely or at all, and that the value of any collateral supporting a loan will be insufficient to cover any exposure to loss on a loan. Management maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, to absorb credit losses in the loan portfolio. The determination of the appropriate level of the allowance is inherently subjective, involves a high degree of judgment and complexity, and requires us to make significant estimates, all of which are subject to material changes, particularly in uncertain economic environments as described above.

In June 2016, the Financial Accounting Standards Board ("FASB") issued a new accounting standard (Accounting Standards Update "ASU" 2016-13), referred to as Current Expected Credit Loss ("CECL") that requires that the measurement of all expected credit losses for financial assets held at the reporting date be based on historical experience, current conditions, and reasonable and supportable forecasts, and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, the new standard amends the accounting for credit losses on purchased financial assets with credit deterioration. ASU 2016-13 became effective for us, as a smaller reporting company, on January 1, 2023. Please refer to Note 1. Summary of Significant Accounting Policies – Recent Accounting Pronouncements, in the Notes to Consolidated Financial Statements contained in *Item 8. Financial Statements and Supplementary Data* for additional discussion. Upon adoption of ASU 2016-13, we will record a one-time cumulative adjustment to increase our allowance for credit losses and reduce retained earnings, which will be reflected on our balance sheet and will not impact our income statement. We expect that the transition will result in a 20% to 30% increase in the allowance for credit losses on January 1, 2023, and a corresponding decrease in retained earnings of the after-tax amount. The adjustment to allowance for credit losses is an estimate and subject to refinement based on updates to quantitative or qualitative input assumptions or loss estimation factors. A failure to effectively measure the impact of the new CECL accounting standard may result in significant overstatement or understatement of our allowance for credit losses, and in the event of an understatement, may necessitate that we significantly increase our allowance for credit losses, which could adversely affect our net income.

The CECL methodology requires that lifetime "expected credit losses" be recorded at the time the financial asset is originated or acquired, and be adjusted each period for changes in expected lifetime credit losses. The CECL methodology replaces multiple prior impairment models under U.S. GAAP that generally required that a loss be "incurred" before it was recognized, and represents a significant change from prior U.S. GAAP. Our ongoing estimates of expected credit losses will depend upon our models and assumptions, existing and forecasted macroeconomic conditions and the credit quality, composition and other characteristics of our loan and other applicable portfolios. We believe these factors are likely to cause variability in our expected credit losses under CECL compared to previous GAAP, and therefore an increase in the variability of our period-to-period net income. We believe that CECL is also likely to reduce comparability across financial services companies due to the ability to adopt different measurement approaches for expected credit losses and different economic assumptions used in each of the companies' models. Our initial adjustment to the allowance for credit losses at the transition date may vary from our estimate due to refinements in quantitative or qualitative input assumptions or loss estimation factors.

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

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

The FDIC, Federal Reserve and the OCC issued a final rule to allow a banking organization to elect to phase in the regulatory capital impact of CECL over a three-year period commencing with time of adoption of the new standard. We did not make the election to phase in the impact of CECL on our regulatory capital calculations because we do not expect the adoption of CECL to have a significant impact on our regulatory capital ratios.

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

We have grown our business primarily through de novo branching and through the acquisition of other financial institutions. Since our bank was founded in June 2006, through December 31, 2022, we have opened 14 de novo branches, completed seven whole bank acquisitions, and acquired two branch locations. We have also expanded our operations outside our historical south Louisiana base and into Texas and Alabama, progressing towards our goal to build a premier regional community bank. Our most recent acquisition was completed on April 1, 2021 when we acquired Cheaha Financial Group, Inc., headquartered in Oxford, Alabama, and its wholly-owned subsidiary, Cheaha Bank, which served the residents of Calhoun County, Alabama through four branch locations. We intend to continue to pursue a multi-state growth strategy for our business primarily through attractive acquisition opportunities as well as continue to pursue organic growth throughout our franchise. Our growth prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies when expanding their franchise, including the following:

- ***De Novo Branching; Branch Acquisitions***. There are considerable costs involved in opening branches, and new branches generally do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, our de novo branches can be expected to negatively impact our earnings for some period of time until the branches reach certain economies of scale. Our expenses could be further increased if we encounter delays in opening any of our de novo branches. We may be unable to accomplish future de novo branch expansion plans due to a lack of available satisfactory sites, difficulties in acquiring such sites, increased expenses or loss of potential sites due to complexities associated with zoning and permitting processes, failure to obtain regulatory approval, or other factors. We may also be unable to identify and acquire suitable operating branches. Finally, we have no assurance our de novo branches or branches that we may acquire will maintain or achieve deposit levels, loan balances or other operating results necessary to avoid losses or produce profits. Our growth and de novo branching strategy necessarily entails growth in overhead expenses as we routinely add new offices and staff. During the last three fiscal years, we have opened two de novo branches. We do not expect to open de novo branches in 2023.

- ***Expansion into New Markets***. Prior to our acquisition of Mainland Bank in the first quarter of 2019, we operated exclusively in Louisiana. With our acquisition of Mainland Bank, we entered Texas, and we subsequently entered Alabama with our acquisition of Bank of York in November 2019. The financial services industry in these areas is highly competitive, and the challenges of operating in new markets and multiple states may be greater than we anticipate.

- ***Acquisition and Integration Risks***. An acquisition strategy involves substantial risks and uncertainties including:

    - the time and costs of evaluating potential acquisition candidates and new markets, negotiating transactions, and related diversion of management’s attention from day-to-day operations;
    - our ability to continue to finance acquisitions and possible dilution to our existing shareholders;
    - potential for acquisition agreements, once signed, not to be completed due to inability to obtain required regulatory approvals, third-party litigation, lack of shareholder approval if required, failure of other conditions to closing, agreement of the parties, or other reasons;
    - unanticipated difficulties in integrating acquired businesses, including potential losses of customers and employees, higher than expected integration costs, and inability to maintain and increase market share at new locations; and
    - potential differences between management’s expectations regarding how an acquired business will perform and actual results once acquired, which may result in lower than expected revenues, inability to achieve expected cost savings and synergies, higher than expected liabilities and costs, impairments of goodwill, and losses.

- ***Organic Growth Risks***. As we continue to pursue organic growth at our existing and new or acquired locations, we may be unable to successfully maintain loan quality, obtain deposits at attractive rates, attract and retain personnel to implement and oversee such growth, or maintain an efficient overhead cost structure. We may also introduce new products and services that do not produce projected profits and may result in losses.

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

Changes in retail distribution strategies and consumer behavior may adversely impact our business, financial condition and results of operations.

We have significant investments in our physical branch network, including in bank premises and equipment as well as in our branch work force. Advances in technology as well as changing customer preferences for remote methods of accessing our products and services could decrease the value of our branch network and may cause us to further change our retail distribution strategy, and close, consolidate or sell certain branches or parcels of land held for future branch locations. These actions could lead to losses on these assets or adversely impact the carrying value of long-lived assets and may lead to expenditures to reconfigure remaining branches. Any changes in our branch network strategy could adversely impact our business if it results in the loss of customers.

In recent periods, we have focused on enhancing 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 one branch in 2020, two branches in 2021, and an additional two branches in 2022. During 2022, we sold three tracts of land that were being held for future branch locations. On July 15, 2022, we entered into a Purchase and Assumption Agreement to sell certain assets, deposits and other liabilities associated with the Alice, Texas and Victoria, Texas locations to First Community Bank. We completed the transaction on January 27, 2023. We could incur material losses in the future due to the closure or consolidation of branches or sale of land held for future branch locations.

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

We currently conduct our operations primarily in southern Louisiana, and more specifically, in the Baton Rouge, New Orleans, Lafayette and Lake Charles metropolitan areas, in the greater Houston, Texas area, and in Alabama. As of December 31, 2022, our primary markets were south Louisiana (approximately 76% of our total deposits of $2.1 billion), southeast Texas (approximately 9% of our total deposits) and Alabama (approximately 15% of our total deposits). At December 31, 2022, approximately 63%, 6%, and 5% of the secured loans in our total loan portfolio were secured by properties and other collateral located in Louisiana, Texas and Alabama, respectively.

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

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

The ongoing COVID-19 pandemic, or a similar health crisis, may adversely affect our business, employees, borrowers, depositors, counterparties and third-party service providers.

The COVID-19 pandemic and related governmental control and stimulus measures severely disrupted financial markets and overall economic conditions in 2020 and 2021. While the impact of the pandemic and the associated uncertainties remained in 2022 and remain in 2023, there has been significant progress made with COVID-19 vaccines, which has resulted in the easing of restrictive measures in the U.S. At the same time, many industries have been experiencing supply chain disruptions and labor shortages. Inflation increased substantially in 2021 and 2022, and oil and gas prices have also been volatile due in part to the pandemic, and in 2022 due to the war in Ukraine. Differing variants of the COVID-19 virus continue to emerge and resurgences have occurred and may occur in the future. 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 or similar health crises may have on the economy or our business.

As part of its efforts to relieve pandemic economic stresses, the U.S. government instituted the Paycheck Protection Program ("PPP") administered by the Small Business Administration ("SBA"). We participated as a lender in the program beginning in the second quarter of 2020 and made loans totaling $178.0 million under the program. As of December 31, 2022, we had remaining PPP loans outstanding with a balance of $1.7 million. While most of our PPP loans were paid by the SBA's guaranty under the program, the SBA may find that there was a deficiency in the manner in which the loan was handled by us, and may seek to recover any related losses. In addition, some banks have been subject to litigation regarding their processing of PPP loan applications. Any such recovery efforts by the SBA or litigation related to the PPP program could have a material adverse effect on our business and reputation.

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

Certain industry-specific economic factors may also adversely affect us. For example, the energy sector, which is historically cyclical, has experienced significant volatility in oil and gas prices. While we consider our direct exposure to the energy sector not to be significant, comprising approximately 1.8% of total loans, excluding PPP loans, at December 31, 2022, continued oil price volatility could have further negative impacts on general economic conditions, particularly in our south Louisiana and southeast Texas markets, which could have a material adverse effect on our business, financial condition, and results of operations.

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

At December 31, 2022, approximately 79% of our total loan portfolio had real estate as a primary or secondary component of the collateral securing the loan. The real estate provides an alternate source of repayment in the event of a default by the borrower, but its value may deteriorate during the time the credit is extended. Declines in real estate values in our markets could significantly impair the value of the particular collateral securing our loans and our ability to sell the collateral upon foreclosure for an amount necessary to satisfy the borrower's obligations to us. Furthermore, in a declining real estate market, we often will need to further increase our allowance for loan losses to address the deterioration in the value of the real estate securing our loans. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, cash flows and growth prospects.

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

Our loan portfolio includes commercial real estate loans, which are secured by owner-occupied and nonowner-occupied commercial properties. As of December 31, 2022, our owner-occupied commercial real estate loans totaled $445.1 million, or 21.1% of our total loan portfolio and our nonowner-occupied commercial real estate loans totaled $513.1 million, or 24.4% of our total loan portfolio.

Commercial real estate loans typically depend on the successful operation and management of the businesses that occupy these properties or the financial stability of tenants occupying the properties. Nonowner-occupied commercial real estate loans typically are dependent, in large part, on the owner's ability to rent the property and the ability of the tenants to pay rent, whereas owner-occupied commercial real estate loans typically are dependent, in large part, on the success of the owner's business. Cash flows, which may include proceeds from sales of commercial real estate, may be affected significantly by general economic conditions. Weak economic conditions may impair the borrower's business operations and typically slow the execution of new leases. Such economic conditions may also lead to existing lease turnover. As a result of these factors, vacancy rates for retail, office and industrial space may increase. High vacancy rates could also result in rents falling. The combination of these factors could result in deterioration in the fundamentals underlying the commercial real estate market and the deterioration in value of some of our loans. These loans expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be liquidated as easily as residential real estate. If we foreclose on these loans, our holding period for the collateral typically is longer than for a 1-4 family residential property because there are fewer potential purchasers of the collateral. Additionally, nonowner-occupied commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Accordingly, charge-offs on nonowner-occupied commercial real estate loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. Unexpected deterioration in the credit quality of our commercial real estate loan portfolio would require us to increase our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition, results of operations, cash flows and growth prospects.

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

Commercial and industrial loans primarily consist of working capital lines of credit and equipment loans, typically secured by accounts receivable or inventory, or the relevant equipment. Repayment of these loans generally comes from the generation of cash flow as the result of the borrower's business operations. Commercial lending generally involves different risks from those associated with commercial real estate lending or construction lending. Although commercial loans may be collateralized by business assets (including real estate, if available as collateral), the repayment of these types of loans depends primarily on the creditworthiness and projected cash flow of the borrower (and any guarantors). Thus, the general business conditions of the local economy and the borrower's ability to sell its products and services, thereby generating sufficient operating revenue to repay us under the agreed upon terms and conditions, are the chief considerations when assessing the risk of a commercial and industrial loan. The liquidation of collateral, if any, is considered a secondary source of repayment because equipment and other business assets may, among other things, be obsolete or of limited resale value. Additionally, as of December 31, 2022 36% of our commercial and industrial loans were variable rate loans; rising interest rates increase interest payments due on such loans and may increase the risk of default by the borrower.

Commercial and industrial loans also include public finance loans made to governmental entities, which can be taxable or tax-exempt, for purposes including debt refinancing, economic development, quality of life projects, short-term cash-flow needs, and infrastructure enhancements, among other things. Public finance loans generally are repaid using pledged revenue sources including income tax, property tax, sales tax, and utility revenue, among other sources. Accordingly, repayment depends upon the financial stability and tax or revenue generating capacity of the particular revenue source. Although public finance loans are less than 5% of our loan portfolio as of December 31, 2022, they have grown in recent periods.

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

Our success depends significantly on the continued service and skills of our executive management team. During 2022 and as of March 6, 2023, due to individual health reasons, family reasons and other factors, we have completed a transition of our chief financial officer, chief accounting officer and general counsel, which required board and management time and attention. The implementation of our business and growth strategies also depends significantly on our ability to retain employees with experience and business relationships within their respective market areas, as well as on our ability to attract, motivate and retain highly qualified senior and middle management. Competition for employees is intense, particularly in light of the labor shortages caused by the COVID-19 pandemic. We could have difficulty replacing key employees with personnel with the combination of skills and attributes required to execute our business and growth strategies and who have ties to the communities within our market areas. The loss of any of our key personnel could therefore have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We may be adversely impacted by the transition from LIBOR as a reference rate.

Our floating-rate funding, certain hedging transactions, and certain of the products we have offered, such as floating-rate loans, determine their applicable interest rate or payment amount by reference to the U.S. dollar London Interbank Offered Rate ("LIBOR"). Regulatory authorities responsible for the administration and publication of LIBOR have announced that the most commonly used LIBOR settings will cease to be published or cease to be representative after June 30, 2023. All other LIBOR settings ceased to be published as of December 31, 2021. The Bank discontinued originating LIBOR-based loans effective December 31, 2021.

As of December 31, 2022, approximately $30.9 million of our outstanding loans, and, in addition, certain derivative contracts, borrowings and other financial instruments, have attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR has resulted in and could continue to result in added costs and employee efforts and could present additional risk. We are subject to litigation and reputational risks if we are unable to renegotiate and amend existing contracts with counterparties that are dependent on LIBOR, including contracts that do not have fallback language. The timing and manner in which each customer's contract transitions to an alternative reference rate will vary on a case-by-case basis. There continues to be substantial uncertainty as to the ultimate effects of the LIBOR transition, including with respect to the acceptance and use of other benchmark rates. Since other benchmark rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR, which may lead to increased volatility as compared to LIBOR. The transition has impacted our market risk profiles and required changes to our risk and pricing models, valuation tools, product design and hedging strategies. Failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

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

Our business is concentrated in southern Louisiana, in southeast Texas, and in Alabama. Our selected markets are susceptible to major hurricanes, floods, tropical storms, tornadoes and other natural disasters and adverse weather, the nature and severity of which can be difficult to predict. These natural disasters can disrupt our operations, cause widespread property damage, and severely depress the local economies in which we operate. For example, the historic flooding of Baton Rouge and surrounding areas in August 2016 had significant impacts in several markets in which we conduct business. Hurricane Harvey caused significant damage and flooding in Texas when it made landfall in August 2017. Hurricane Ida, which made landfall as a category 4 hurricane in Louisiana in August 2021, caused significant damage in the southern part of the state and also disrupted operations for certain of our customers. We recognized a material impairment related to a lending relationship with a group of related borrowers (the "Borrower"), collateralized by commercial real estate, inventory, and equipment. As a result of Hurricane Ida, the Borrower's business operations were disrupted, and due to this impact on the Borrower's operations, certain of the collateral supporting the loan relationship experienced a significant reduction in value. The severity and impact of future severe weather events are difficult to predict and may be exacerbated by global climate change. The 2010 Deepwater Horizon oil spill in the Gulf of Mexico illustrated that man-made disasters can also adversely affect economic activity in the markets in which we operate. Any economic decline as a result of a natural disaster, adverse weather, oil spill or other man-made disaster can reduce the demand for loans and our other products and services.

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

Climate related events and legislative and societal responses regarding climate change present risks to our business.

Climate change may intensify severe weather events such as hurricanes and rainstorms that recur in our market areas, which may adversely impact our locations and business and those of our customers and suppliers. In addition, there has been an increased focus among businesses, consumers and investors regarding transitioning to renewable energy and a net zero economy. If we fail to adequately anticipate and address these changing preferences, our business could be adversely impacted. We are also subject to risks relating to potential new climate change-related legislation or regulations, which could increase our and our customers' costs. The risks associated with these matters are continuing to evolve rapidly and the ultimate impact on our business is difficult to predict with any certainty.

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

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

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

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

Cyberattacks or other security breaches could adversely affect our operations, net income or reputation.

The financial services industry is particularly at risk for cybersecurity concerns because of the proliferation of new and emerging technologies, and the use of the internet and telecommunications technologies to conduct financial transactions. Additionally, increased use of internet and mobile banking products, and applications and plans to use or develop additional remote connectivity solutions increase our cybersecurity risks and exposure. In recent years we have increased our offerings of online and mobile banking services, including on-line bill payment, on-line funds transfers, mobile deposits, mobile wallets, video banking and Zelle®. These risks are heightened when customers use near real-time money transfer solutions such as Zelle®, where fraudulent and scam transactions can be more difficult to detect, prevent and recover. Additionally, as part of our banking business, we and certain of our third-party vendors collect, use and hold sensitive data concerning individuals and businesses with whom we have a banking relationship. Threats to data security, including unauthorized access and cyberattacks, rapidly emerge and change and are becoming increasingly sophisticated, exposing us to additional costs to secure our data in accordance with customer expectations and statutory and regulatory requirements. We could also experience a breach by intentional or negligent conduct on the part of our employees or other internal sources or by merchants using our customers' debit and credit cards, software bugs, other technical malfunctions, or other causes. As a result of any of these threats, our computer systems and/or our customer accounts could become vulnerable to misappropriation of confidential information, account takeover schemes, ransomware, or cyberfraud. A ransomware attack could potentially shut down our data processing system and prevent us from accessing critical information. Our systems and those of our third-party vendors may become vulnerable to damage or disruption due to circumstances beyond our or their control, such as from catastrophic events, power anomalies or outages, natural disasters, network failures, and viruses and malware. Events may occur that increase our and other companies' vulnerability with respect to cybersecurity risks, such as a sudden and substantial increase in remote work by employees as occurred during the early stages of the pandemic or may occur during adverse weather events, and as a result of increased cyberattacks by foreign actors, including in connection with the war in Ukraine.

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

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

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

Deposits are a low cost and stable source of funding. We compete with banks and other financial institutions for deposits. Funding costs could increase if the Company loses deposits and replaces them with more expensive sources of funding, if customers shift their deposits into higher cost products, or if the Company needs to raise its interest rates to avoid losing deposits. Higher funding costs reduce the Company's net interest margin, net interest income and net income. As interest rates began to rise significantly during 2022, competition for deposits increased, and the Bank raised rates it offered on deposits to remain competitive in its markets; these trends may continue during 2023.

We may need to raise additional capital in the future to execute our business strategy or to comply with regulatory requirements.

In addition to the liquidity that we require to conduct our day-to-day operations, the Company, on a consolidated basis, and the Bank, on a stand-alone basis, must meet regulatory requirements. Also, we may need capital to finance our growth, including through acquisitions. For example, in 2019, we sold $25.0 million of subordinated notes structured to qualify as Tier 2 capital, and $30.0 million of common stock, in part to fund acquisitions. If the Bank's regulators deemed its capital levels to be too low for safety and soundness reasons or if the Bank were to be designated as "undercapitalized" or in a lower capitalization category than "undercapitalized," it could be required to raise additional capital. For additional information, see *Item 1. Business - Regulatory Capital Requirements - Prompt Corrective Action Regulations.*

Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Rising interest rates as experienced during 2022 increase our cost of new debt capital. Accordingly, there can be no assurances that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our business, financial condition, results of operations and growth prospects could be materially and adversely affected.

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

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and have substantially greater resources than we have, including higher total assets and capitalization, a more extensive and established branch network, greater access to capital markets and a broader offering of financial services. Such competitors primarily include national, regional and community banks within the various markets in which we operate.

Because of their scale, many of these competitors can be more aggressive than we can on loan and deposit pricing. We also face competition from many other types of financial institutions, including savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. Many of these entities have fewer regulatory constraints and may have lower cost structures than we do. There has been an increasing trend of credit unions acquiring banks. Credit unions are tax-exempt entities which provides an advantage when pricing loans and deposits. The acquisition of banks by credit unions may increase competition for customers and acquisitions.

Our industry could become even more competitive as a result of legislative and regulatory changes, as well as continued consolidation. Finally, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems, including Venmo and PayPal, and such as bitcoin and other types of cryptocurrencies. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and related income from those deposits. Disintermediation can also impact our lending business because of the growth of fintech companies delivering lending and other financial services. We may also lose employees to these competitors. Our ability to compete successfully depends on a number of factors, including customer convenience, quality of service, personal contacts, pricing and range of products. If we are unable to successfully compete, our business, financial condition, results of operations and growth prospects will be materially adversely affected.

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

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

We determine impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. As of December 31, 2022, our goodwill totaled $40.1 million. While we have not recorded any such impairment charges since we initially recorded the goodwill, there can be no assurance that our future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

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

Under applicable accounting standards, we are required to review our securities portfolio periodically for the presence of other-than-temporary impairment, taking into consideration current market conditions, the extent and nature of changes in fair value, issuer rating changes and trends, volatility of earnings, current analysts' evaluations, our ability and intent to hold securities until a recovery of fair value, as well as other factors. Adverse developments with respect to one or more of the foregoing factors may require us to deem particular securities to be other-than-temporarily impaired, with the credit related portion of the reduction in the value recognized as a charge to the results of operations in the period in which the impairment occurs. In addition, during 2022, increases in interest rates had a negative effect on the value of our investment securities portfolio, which may continue. As of December 31, 2022, unrecognized losses in our investment portfolio totaled $62.5 million. In addition, market volatility may make it difficult to value certain securities. Subsequent valuations, in light of factors prevailing at that time, may result in significant changes in the values of these securities in future periods. Any of these factors could require us to recognize further losses or impairments in the value of our securities portfolio, which may have an adverse effect on our results of operations in future periods.

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

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

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

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

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

Risks Related to Our Industry

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

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

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

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

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

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

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

The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition, results of operations and growth prospects.

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

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

Fintech developments, such as bitcoin or other types of cryptocurrency and the development of alternative payment systems such as Venmo and PayPal, have the potential to disrupt the financial industry and change the way banks do business. Our success depends on our ability to adapt to the pace of the rapidly changing technological environment, which is crucial to retention and acquisition of customers. On July 31, 2018, the OCC announced it would grant limited-purpose national bank charters to fintech companies that offer bank products and services. The federal charter would allow fintech companies to operate nationwide under a single set of national standards, without needing to seek state-by-state licenses or joining with brick-and-mortar banks, which could have the effect of allowing fintech companies to more easily compete with us for financial products and services in the communities we serve. At present, the future of the OCC limited-purpose fintech charter is unclear. To date, the OCC has not approved any such charters and each application for a charter has been met with a lawsuit challenging the OCC's authority to issue such charters.

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

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

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

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

Risks Related to an Investment in our Common Stock

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

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

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

The stock market and, in particular, the market for financial institution stocks have experienced significant fluctuations in recent years. In addition, significant fluctuations in the trading volume in our common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our common stock, which may make it difficult for investors to sell their shares at the volume, prices and times desired.

Shares eligible for future sale and shares we may issue in the future could adversely affect market prices of our common stock.

Shares of our common stock eligible for future sale, including those that may be issued in any private or public offering of our common stock, as consideration in acquisition transactions, or as incentives under incentive plans, could adversely affect market prices for our common stock. As of December 31, 2022, we had 9,901,847 shares outstanding and 350,430 shares subject to options granted under our incentive plan. Because our outstanding shares of common stock either were issued in an offering registered under the Securities Act of 1933, as amended (the "Securities Act") or have been held for more than one year, such shares are freely tradable, except for shares held by our affiliates (approximately 7% of shares outstanding as of December 31, 2022) and 253,488 shares that represent unvested restricted shares under our incentive plan. Shares issued under our incentive plan will be available for sale into the public market, except for shares held by our affiliates. Shares held by our affiliates may be resold subject to the restrictions in Rule 144 of the Securities Act. In the future, we may issue additional shares of common stock to raise capital for growth or as consideration in acquisition transactions or for other purposes, and such shares may be registered under the Securities Act and freely tradable or may be issued in a private placement and registered for resale under the Securities Act.

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

Holders of our common stock are entitled to receive only such cash dividends as our board of directors may declare out of funds legally available for the payment of dividends. We have no obligation to continue paying dividends, and we may change our dividend policy at any time without notice to our shareholders. In addition, our existing and future debt agreements limit, or may limit, our ability to pay dividends. Under the terms of our 5.125% Fixed-to-Floating Rate Subordinated Notes due 2029, we may not pay a dividend if either our parent company or the Bank, both immediately prior to the declaration of the dividend and after giving effect to the payment of the dividend, would not maintain regulatory capital ratios that are as "well capitalized" levels for regulatory capital purposes. We are also prohibited from paying dividends upon and during the continuance of any Event of Default under such notes. 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. 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.

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

In addition, there are numerous laws and banking regulations that limit our and Investar Bank's ability to pay dividends. For further discussion of the regulatory restrictions on our ability to pay dividends, see *Item 1. Business – Supervision and Regulation – Dividends.*

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our main office, which serves as our executive and operations center, is located at 10500 Coursey Boulevard in Baton Rouge, Louisiana. In addition, we operate 29 full-service branches. Our 21 branches in Louisiana are located in Ascension (1), East Baton Rouge (4), West Baton Rouge (1), Jefferson (2), Lafayette (2), Livingston (1), Orleans (1), St. Tammany (1), Tangipahoa (1), East Feliciana (2), West Feliciana (1), Evangeline (3) and Calcasieu (1) Parishes. Our two branches in Texas are located in Galveston (1) and Harris (1) Counties. Our six branches in Alabama are located in Calhoun (4) and Sumter (2) Counties, and one loan production office is located in Tuscaloosa County. We also have one stand-alone automated teller machine in Baton Rouge, Louisiana and one stand-alone interactive teller machine in Morgan City, Louisiana.

We own the building, known as Investar Tower, in which our main office is located, one loan production office, and all of our branch offices, with the exception of two leased branch locations in Louisiana and two leased branch locations in Texas. Each of our owned branch facilities is a stand-alone building with on-site parking and drive-up access, the majority of which are equipped with an automated teller machine or interactive teller machine. We believe that our facilities are in good condition and are adequate to meet our operating needs for the foreseeable future.

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

Item 3. Legal Proceedings

From time to time we are party to ordinary routine litigation matters incidental to the conduct of our business. We are not presently party to, and none of our property is the subject of, any legal proceedings, the resolution of which we believe would have a material adverse effect on our business, financial condition, results of operations, cash flows, growth prospects or capital levels, nor were any such proceedings terminated during the fourth quarter of 2022.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

Our common stock is listed on the Nasdaq Global Market (the "Nasdaq") under the symbol "ISTR." As of March 6, 2023, there were approximately 648 holders of record of our common stock.

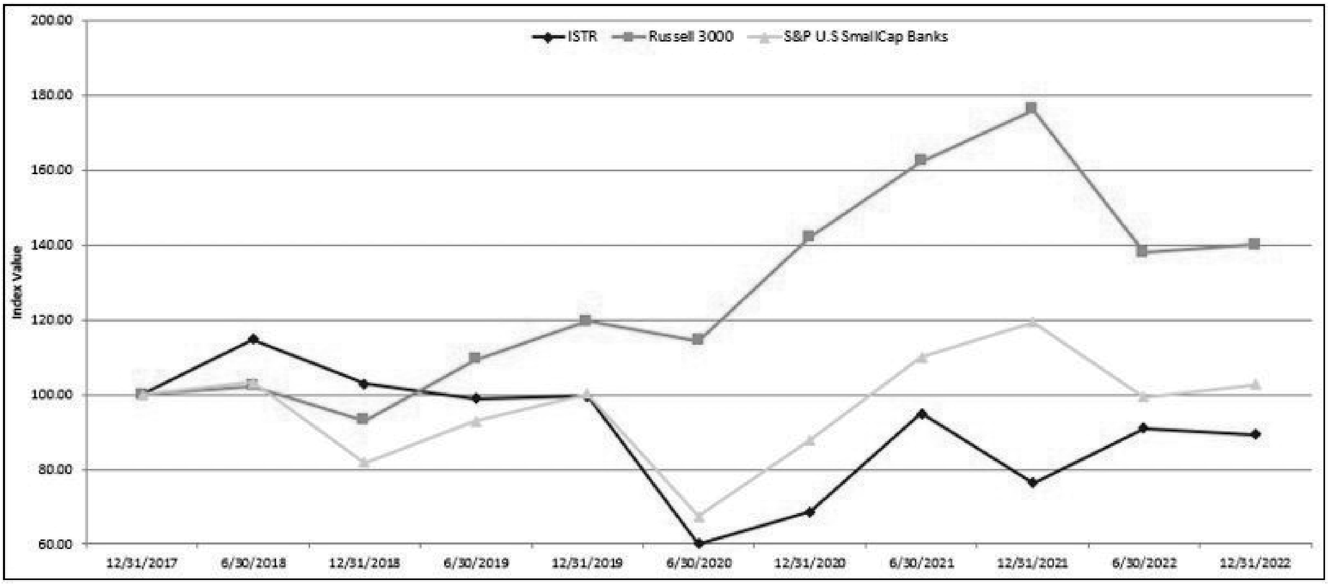
Dividend Policy

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

Since we are a holding company with no material business activities, our ability to pay dividends is substantially dependent upon the ability of Investar Bank to transfer funds to us in the form of dividends, loans and advances. The Bank's ability to pay dividends and make other distributions and payments to us depends upon the Bank's earnings, financial condition, general economic conditions, compliance with regulatory requirements and other factors. In addition, the Bank's ability to pay dividends to us is itself subject to various legal, regulatory and other restrictions. See *Item 1. Business – Supervision and Regulation – Dividends*, above for a discussion of the restrictions on dividends under federal banking laws and regulations. In addition, as a Louisiana corporation, we are subject to certain restrictions on dividends under the Louisiana Business Corporation Act. Generally, a Louisiana corporation may pay dividends to its shareholders unless, after giving effect to the dividend, either (1) the corporation would not be able to pay its debts as they come due in the usual course of business or (2) the corporations' total assets are less than the sum of its total liabilities and the amount that would be needed, if the corporation were to be dissolved at the time of the payment of the dividend, to satisfy the preferential rights of shareholders whose preferential rights are superior to those receiving the dividend. In addition, our existing and future debt agreements limit, or may limit, our ability to pay dividends. Under the terms of our 5.125% Fixed-to-Floating Rate Subordinated Notes due 2029, we may not pay a dividend if either our parent company or the Bank, both immediately prior to the declaration of the dividend and after giving effect to the payment of the dividend, would not maintain regulatory capital ratios that are at "well capitalized" levels for regulatory capital purposes. We are also prohibited from paying dividends upon and during the continuance of any Event of Default under such notes. 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.

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

Stock Performance Graph



The above graph compares the cumulative total shareholder return on the Company's common stock over a measurement period beginning at the market close on the last trading day of 2017, with (i) the cumulative total return on the stocks included in the Russell 3000 Index and (ii) the cumulative total return on the stocks included in the S&P United States SmallCap Banks Index, which includes banks with market capitalizations of $250 million to $1 billion. The performance graph assumes that the value of the investment in our common stock, the Russell 3000 Index and the S&P United States SmallCap Banks Index was $100 at December 31, 2017 and that all dividends were reinvested.

Index	12/31/2017	6/30/2018	12/31/2018	6/30/2019
Investar Holding Corporation	$ 100.00	$ 114.73	$ 102.90	$ 98.96
Russell 3000	100.00	103.22	81.80	92.83
S&P US SmallCap Banks	100.00	102.29	93.01	109.36
	12/31/2019	**6/30/2020**	**12/31/2020**	**6/30/2021**
Investar Holding Corporation	$ 99.59	$ 60.17	$ 68.63	$ 94.98
Russell 3000	100.08	67.31	87.81	109.91
S&P US SmallCap Banks	119.55	114.31	142.06	162.42
	12/31/2021	**6/30/2022**	**12/31/2022**	
Investar Holding Corporation	$ 76.39	$ 90.87	$ 89.34	
Russell 3000	119.40	99.26	102.62	
S&P US SmallCap Banks	176.16	137.95	140.08	

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

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

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased[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	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Be Purchased Under the Plans or Programs[2]
October 1, 2022 to October 31, 2022	10,198	$	20.17	10,198	386,714
November 1, 2022 to November 30, 2022	4,414		22.00	—	386,714
December 1, 2022 to December 31, 2022	—		—	—	386,714
	14,612	$	20.72	10,198	386,714

(1) Includes 4,414 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, and on September 21, 2022, the Company announced that its board of directors authorized an additional 300,000 shares of the Company's common stock under its stock repurchase plan.

Unregistered Sales of Equity Securities

Not applicable.

Securities Authorized for Issuance under Equity Compensation Plans

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

Item 6. [Reserved]

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K, both in Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere, contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include statements relating to our projected growth, anticipated future financial performance, changes in our allowance for loan or credit losses including due to the adoption of ASU 2016-13, anticipated future credit quality and our potential ability to achieve performance and strategic goals, as well as statements relating to the anticipated effects of these factors on our business, financial condition and results of operations. These statements can typically be identified through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "think," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature.

Our forward-looking statements contained herein are based on assumptions and estimates that management believes to be reasonable in light of the information available at this time. However, many of these statements are inherently uncertain and beyond our control and could be affected by many factors. Factors that could have a material effect on our business, financial condition, results of operations, cash flows and future growth prospects can be found in *Item 1A. Risk Factors*. These factors include, but are not limited to, the following, any one or more of which could materially affect the outcome of future events:

- the significant risks and uncertainties for our business, results of operations and financial condition, as well as our regulatory capital and liquidity ratios and other regulatory requirements caused by 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 risks and uncertainties caused by the ongoing COVID-19 pandemic, potential continued higher inflation and interest rates, supply and labor constraints, the war in Ukraine and uncertainty regarding whether the United States Congress will raise the statutory debt limit;
- 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 2023;
- our ability to identify and enter into agreements to combine with attractive acquisition partners, finance acquisitions, complete acquisitions after definitive agreements are entered into, and successfully integrate and grow acquired operations;
- the estimated 20% to 30% increase in our allowance for loan losses in the first quarter of 2023 and corresponding decrease in retained earnings of the after-tax amount, resulting from our adoption on January 1, 2023 of ASU 2016-13, and inaccuracy of the assumptions and estimates we make in establishing reserves for credit losses and other estimates;
- changes in the quality or composition of our loan portfolio, including adverse developments in borrower industries or in the repayment ability of individual borrowers;
- changes in the quality and composition of, and changes in unrealized losses in, our investment portfolio, including whether we may have to sell securities before their recovery of amortized cost basis and realize losses;
- 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;
- 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 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;
- 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 one or more times during 2023;

- hurricanes, tropical storms, tropical depressions, floods, winter storms, tornadoes, and other adverse weather events, all of which have affected our market areas from time to time; other natural disasters; oil spills and other man-made disasters; 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.

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

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

Overview

Through our wholly-owned subsidiary Investar Bank, National Association, we provide full banking services, excluding trust services, tailored primarily to meet the needs of individuals, professionals, and small to medium-sized businesses. Our primary areas of operation are south Louisiana (approximately 76% of our total deposits as of December 31, 2022), including Baton Rouge, New Orleans, Lafayette, Lake Charles, and their surrounding areas; southeast Texas, primarily Houston and its surrounding area and Alabama, including York and Oxford and their surrounding areas. Our Bank commenced operations in 2006 and we completed our initial public offering in July 2014. On July 1, 2019, the Bank changed from a Louisiana state bank charter to a national bank charter and its name changed to Investar Bank, National Association. Our strategy includes organic growth through high quality loans and growth through acquisitions, including whole-bank acquisitions and strategic branch acquisitions. We currently operate 29 full service branches comprised of 21 full service branches in Louisiana, two 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. In addition to our branches acquired through acquisitions, during our last three fiscal years, we opened two de novo branch locations.

We closed five branches during our last three fiscal years as we continued to evaluate opportunities to improve our branch network efficiency, leverage our digital initiatives and further reduce costs. Four of the branches had been acquired, and the closures involved anticipated synergies that resulted in significant cost savings. In 2022, we sold these five former branch locations and three tracts of land that were being held for future branch locations. On January 27, 2023, we completed our previously announced sale of certain assets, deposits and other liabilities associated with our Alice, Texas and Victoria, Texas branch locations to First Community Bank in order to focus more on our core markets. Of the Bank’s entire branch network, these two locations were geographically the most distant from our Louisiana headquarters.

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

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

Certain Performance Indicators

	As of and for the years ended December 31,				
(In thousands, except share data)	**2022**	**2021[(1)]**	**2020[(1)]**	**2019[(1)]**	**2018**
Financial Information					
Total assets	$ 2,753,807	$ 2,513,203	$ 2,321,181	$ 2,148,916	$ 1,786,469
Total stockholders' equity	215,782	242,598	243,284	241,976	182,262
Net interest income	89,785	83,814	73,534	64,818	57,370
Net income	35,709	8,000	13,889	16,839	13,606
Diluted earnings per share	3.50	0.76	1.27	1.66	1.39
Performance Ratios					
Return on average assets	1.37%	0.31%	0.61%	0.85%	0.81%
Return on average equity	15.63	3.22	5.77	8.21	7.68
Net interest margin	3.67	3.53	3.49	3.51	3.61
Dividend payout ratio	10.31	40.26	19.69	13.55	12.09
Capital Ratios					
Total equity to total assets	7.84%	9.65%	10.48%	11.26%	10.20%
Tangible equity to tangible assets[(2)]	6.37	8.04	9.22	9.96	9.20

(1) Certain performance indicators includes the effect of acquisitions from the date of each acquisition. On March 1, 2019, the Company acquired Mainland Bank, by merger with and into the Bank. On November 1, 2019, the Company acquired Bank of York, by merger with and into the Bank. On February 21, 2020, the Bank acquired two branches from PlainsCapital Bank. On April 1, 2021, the Company acquired Cheaha Financial Group, Inc. and its wholly-owned subsidiary Cheaha Bank, by merger with and into the Company and Bank, respectively.

(2) Non-GAAP financial measure. See reconciliation below.

Certain Performance Indicators: Non-GAAP Financial Measures

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

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

	As of and for the years ended December 31,				
	2022	2021	2020	2019	2018
Total stockholders' equity - GAAP	$ 215,782	$ 242,598	$ 243,284	$ 241,976	$ 182,262
Adjustments:					
Goodwill	40,088	40,088	28,144	26,132	17,424
Core deposit intangible	2,959	3,848	3,988	4,803	2,263
Trademark intangible	100	100	100	100	100
Tangible equity	$ 172,635	$ 198,562	$ 211,052	$ 210,941	$ 162,475
Total assets – GAAP	$ 2,753,807	$ 2,513,203	$ 2,321,181	$ 2,148,916	$ 1,786,469
Adjustments:					
Goodwill	40,088	40,088	28,144	26,132	17,424
Core deposit intangible	2,959	3,848	3,988	4,803	2,263
Trademark intangible	100	100	100	100	100
Tangible assets	$ 2,710,660	$ 2,469,167	$ 2,288,949	$ 2,117,881	$ 1,766,682
Total shares outstanding	9,901,847	10,343,494	10,608,869	11,228,775	9,484,219
Book value per share	$ 21.79	$ 23.45	$ 22.93	$ 21.55	$ 19.22
Effect of adjustments	(4.36)	(4.25)	(3.04)	(2.76)	(2.09)
Tangible book value per share	$ 17.43	$ 19.20	$ 19.89	$ 18.79	$ 17.13
Total equity to total assets	7.84%	9.65%	10.48%	11.26%	10.20%
Effect of adjustments	(1.47)	(1.61)	(1.26)	(1.30)	(1.00)
Tangible equity to tangible assets	6.37%	8.04%	9.22%	9.96%	9.20%
Efficiency ratio(1)					
Noninterest expense	$ 60,865	$ 63,062	$ 57,131	$ 48,168	$ 41,882
Net interest income	89,785	83,814	73,534	64,818	57,370
Noninterest income	18,350	12,042	12,096	6,216	4,318
Efficiency ratio	56.29%	65.79%	66.72%	67.81%	67.89%

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

Critical Accounting Estimates

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

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

Allowance for Loan Losses. One of the accounting policies most important to the presentation of our financial statements relates to the allowance for loan losses and the related provision for loan losses. The allowance for loan losses is established as losses are estimated through a provision for loan losses charged to earnings. Through December 31, 2022, the allowance for loan losses is based on the amount that management believes will be adequate to absorb probable losses inherent in the loan portfolio based on, among other things, evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect borrowers' ability to pay. Another component of the allowance is losses on loans assessed as impaired under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 310, *Receivables* ("ASC 310"). The balance of the loans determined to be impaired under ASC 310 and the related allowance is included in management's estimation and analysis of the allowance for loan losses. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows.

The determination of the appropriate level of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. We have an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in our portfolio and portfolio segments. We have an internally developed model that requires significant judgment to determine the estimation method that fits the credit risk characteristics of the loans in our portfolio and portfolio segments. Qualitative and environmental factors that may not be directly reflected in quantitative estimates include: asset quality trends, changes in loan concentrations, new products and process changes, changes and pressures from competition, changes in lending policies and underwriting practices, trends in the nature and volume of the loan portfolio, and national and regional economic trends. Changes in these factors are considered in determining changes in the allowance for loan losses. The impact of these factors on our qualitative assessment of the allowance for loan losses can change from period to period based on management's assessment of the extent to which these factors are already reflected in historic loss rates. The uncertainty inherent in the estimation process is also considered in evaluating the allowance for loan losses.

In June 2016, the Financial Accounting Standards Board ("FASB") issued a new accounting standard (Accounting Standards Update "ASU" 2016-13), referred to as the Current Expected Credit Loss ("CECL") standard, which became effective for us, as a smaller reporting company, on January 1, 2023. The CECL standard changes the manner in which we account for our allowance for loan losses. Please refer to Note 1. Summary of Significant Accounting Policies – Recent Accounting Pronouncements, in the Notes to Consolidated Financial Statements contained in *Item 8. Financial Statements and Supplementary Data* for additional discussion.

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

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

Through December 31, 2022, the Company accounts for acquired impaired loans under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"). An acquired loan is considered impaired when there is evidence of credit deterioration since origination and it is probable at the date of acquisition that we will be unable to collect all contractually required payments. ASC 310-30 prohibits the carryover of an allowance for loan losses for acquired impaired loans. Over the life of the acquired loans, we continually estimate the cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics. As of the end of each fiscal quarter, we evaluate the present value of the acquired loans using the effective interest rates. For any increases in cash flows expected to be collected, we adjust the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life, while we recognize a provision for loan loss in the consolidated statement of operations if the cash flows expected to be collected have decreased.

In June 2016, FASB issued a new accounting standard (ASU 2016-13), referred to as the Current Expected Credit Loss ("CECL") standard, which became effective for us, as a smaller reporting company, on January 1, 2023. The CECL standard changes the manner in which we account for credit losses on purchased financial assets with credit deterioration. Please refer to Note 1. Summary of Significant Accounting Policies – Recent Accounting Pronouncements, in the Notes to Consolidated Financial Statements contained in *Item 8. Financial Statements and Supplementary Data* for additional discussion.

Overview of Financial Condition and Results of Operations

We recognized record annual net income in 2022. Net income for the year ended December 31, 2022 totaled $35.7 million, or $3.50 per diluted share, compared to $8.0 million, or $0.76 per diluted share, for the year ended December 31, 2021. This represents a $27.7 million, or a 346.4%, increase in net income. Net income increased primarily due to the decrease in provision for loan losses as a result of the $21.6 million impairment charge recorded on one of the Company's loan relationships connected with Hurricane Ida in the third quarter of 2021. Noninterest income increased $6.3 million, which was driven by a $6.2 million increase in swap termination fee income and $1.4 million in income from insurance proceeds, partially offset by a $2.3 million decrease in gain on call or sale of investment securities. There was a $6.0 million increase in net interest income driven by a $5.8 million increase in interest on investment securities and a $3.1 million increase in interest and fees on loans partially offset by a $3.0 million increase in interest expense driven by a 17 basis point increase in our cost of funds. At December 31, 2022, the Company and the Bank each were in compliance with all regulatory capital requirements, and the Bank was considered "well-capitalized" under prompt corrective action regulations.

Additional key components of the Company's performance during the year ended December 31, 2022 are summarized below.

- Total assets grew to $2.8 billion at December 31, 2022, an increase of 9.6% from $2.5 billion at December 31, 2021.

- Total loans, net of allowance for loan losses at December 31, 2022 were $2.1 billion, an increase of $229.3 million, or 12.4% compared to $1.9 billion at December 31, 2021.

- Total deposits were $2.1 billion at December 31, 2022, a decrease of $37.9 million, or 1.8%, compared to deposits of $2.1 billion at December 31, 2021. Noninterest-bearing deposits decreased $4.7 million, or 0.8%, to $580.7 million compared to $585.5 million at December 31, 2021.

- Net interest income for the year ended December 31, 2022 was $89.8 million, an increase of $6.0 million, or 7.1%, compared to $83.8 million for the year ended December 31, 2021, driven primarily by increases in the volume and yield earned on interest-earning assets partially offset by an increase in the rates paid on interest-bearing liabilities. We experienced pressure on our net interest margin later in 2022 as interest rates rose during the year and we raised rates offered on deposits and incurred higher costs on our borrowings.

- Our total stockholders' equity decreased to $215.8 million at December 31, 2022 compared to $242.6 million at December 31, 2021 primarily due to an increase in accumulated other comprehensive loss due to a decrease in the fair value of the Bank's available for sale securities portfolio, partially offset by net income for fiscal year 2022.

- Credit quality metrics improved as nonperforming loans were 0.54% of total loans at December 31, 2022 compared to 1.58% at December 31, 2021.

Certain Events That Affect Year-over-Year Comparability

Rising Inflation and Interest Rates. Inflation reached a near 40-year high in late 2021, driven in large part by economic recovery from the ongoing COVID-19 pandemic, and continued to be high during 2022 and into 2023. In response, the Federal Reserve raised interest rates seven times during 2022. During the entirety of 2021, the federal funds target rate was 0% to 0.25%, and it remained at that rate until March 2022. The Federal Reserve made the following changes to the federal funds target rate in 2022:

- On March 16, 2022, the federal funds target rate increased by 25 basis points to 0.25% to 0.50%
- On May 4, 2022, the federal funds target rate increased 50 basis points to 0.75% to 1.00%
- On June 15, 2022, the federal funds target rate increased by 75 basis points to 1.50% to 1.75%
- On July 27, 2022, the federal funds target rate increased by 75 basis points to 2.25% to 2.50%
- On September 21, 2022, the federal funds target rate increased by 75 basis points to 3.00% to 3.25%
- On November 2, 2022, the federal funds target rate increased by 75 basis points to 3.75% to 4.00%
- On December 14, 2022, the federal funds target rate increased by 50 basis points to 4.25% to 4.50%

The Federal Reserve increased the target rate again on February 1, 2023 to 4.50% to 4.75% and one or more further increases are expected during the remainder of 2023.

Hurricane Ida. On August 29, 2021, Hurricane Ida hit the Louisiana coast as a category 4 hurricane. Though Hurricane Ida did not cause significant physical damage to our branch locations, the storm devastated some of our market areas. The Company set up programs to help employees and customers experiencing financial difficulty as a result of the hurricane, including a deferral program discussed further in *Discussion and Analysis of Financial Condition – Loans – Loan Deferral Program* below. Additionally, the Company recorded an impairment charge of $21.6 million in the third quarter of 2021 related to a lending relationship with related borrowers (collectively, the "Borrower") consisting of multiple loans that are secured by various types of collateral, including real estate, inventory, and equipment. As a result of Hurricane Ida's impact on the Borrower's business operations, some of the collateral securing the loan relationship, including real estate, inventory, and equipment, experienced a significant reduction in value.

COVID-19 Pandemic. In March 2020, COVID-19 was declared a pandemic by the World Health Organization. Our business has remained open through the pandemic, although it was significantly disrupted in the early stages of the pandemic as we adjusted to various and changing government and voluntary restrictions on activities. The pandemic generally slowed business lending activity from the level we would otherwise have expected, particularly in 2020, except for our participation in the PPP, and created excess liquidity in the market, contributing to increases in our noninterest and interest-bearing demand deposits, and in money market deposit accounts and savings accounts in 2021. We took actions to protect our customers and employees throughout the pandemic, including increasing our remote banking and working options. We recorded an increased provision for loan losses during 2020 as a result of the impact of the pandemic. Market conditions generally improved during 2021 and 2022 compared to 2020, as vaccines became available and government restrictions lessened. For additional information, see Item 1A. Risk Factors, Risks Related to our Business, "*The ongoing COVID-19 pandemic, or a similar health crisis, may adversely affect our business, employees, borrowers, depositors, counterparties and third-party service providers*."

Acquisitions. On February 21, 2020, the Bank completed the acquisition and assumption of certain assets, deposits and other liabilities associated with the Alice and Victoria, Texas branch locations of PlainsCapital Bank, a wholly-owned subsidiary of Hilltop Holdings Inc., for an aggregate cash consideration of approximately $11.2 million. The Bank acquired approximately $45.3 million in loans and $37.0 million in deposits. In addition, the Bank acquired substantially all the fixed assets at the branch locations and assumed the leases for the branch facilities. The Company recorded a core deposit intangible and goodwill of $0.2 million and $0.5 million, respectively, related to the acquisition. On January 27, 2023, we completed our previously announced sale of certain assets, deposits and other liabilities associated with these branch locations in order to focus more on our core markets.

On April 1, 2021, the Company completed its acquisition of Cheaha Financial Group, Inc. ("Cheaha") and its wholly-owned subsidiary, Cheaha Bank, an Alabama state bank headquartered in Oxford, Alabama. 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, assumed $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 Zachary, Louisiana in 2020. We closed one branch location in Prairieville, Louisiana in April 2021 and one branch location in Dickinson, Texas in October 2021. We closed one branch location in Baton Rouge, Louisiana and one branch location in Westlake, Louisiana in May 2022. We do not expect to open de novo branches during the remainder of 2023. We sold the land and buildings relating to these five locations during 2022. During 2022, we also sold three tracts of land that were held for future branch locations. We plan to consolidate an additional branch located in our Louisiana market in 2023. We continue to evaluate opportunities to reduce our physical branch footprint and further improve efficiency through digital initiatives. During the last three fiscal years, we have opened two de novo branch locations, both in Louisiana, in addition to the branches we acquired through our acquisition activity.

Subordinated Debt Issuance and Redemption. In April 2022, we completed 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"). In June 2022, we used the majority of the proceeds to redeem $18.6 million of our 2017 issuance of 6.00% Fixed-to-Floating Rate Subordinated Notes due 2027 (the "2027 Notes"). We utilized the remaining proceeds for share repurchases and for general corporate purposes.

Discussion and Analysis of Financial Condition

Total assets were $2.8 billion at December 31, 2022, an increase of 9.6% compared to total assets of $2.5 billion at December 31, 2021. The growth experienced since December 31, 2021 can mainly be attributed to organic growth in loans of $232.8 million.

Loans

General. Loans, excluding loans held for sale, constitute our most significant asset, comprising 76% and 74%, of our total assets at December 31, 2022 and 2021, respectively. Loans increased $232.8 million, or 12.4%, to $2.1 billion at December 31, 2022 from $1.9 billion at December 31, 2021.

Beginning in the second quarter of 2020, the Bank has participated as a lender in the PPP as established by the CARES Act. At December 31, 2022, the balance, net of repayments, of the Bank's PPP loans originated was $1.7 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 December 31, 2022, approximately 99% of the total balance of PPP loans originated have been forgiven by the SBA or paid off by the customer.

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

	December 31,			
	2022		2021	
	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans
Mortgage loans on real estate				
Construction and development	$ 201,633	9.6%	$ 203,204	10.9%
1-4 Family	401,377	19.1	364,307	19.4
Multifamily	81,812	3.9	59,570	3.2
Farmland	12,877	0.6	20,128	1.1
Commercial real estate				
Owner-occupied	445,148	21.1	460,205	24.6
Nonowner-occupied	513,095	24.4	436,172	23.3
Commercial and industrial	435,093	20.7	310,831	16.6
Consumer	13,732	0.6	17,595	0.9
Total loans	2,104,767	100%	1,872,012	100%
Loans held for sale	—		620	
Total gross loans	$ 2,104,767		$ 1,872,632	

At December 31, 2022, the Company's total business lending portfolio, which consists of loans secured by owner-occupied commercial real estate properties and commercial and industrial loans, was $880.2 million, an increase of $109.2 million, or 14.2%, compared to the business lending portfolio of $771.0 million at December 31, 2021. The increase in the business lending portfolio as of December 31, 2022 is primarily driven by increased loan production, particularly in public finance loans, by our Commercial and Industrial Division, partially offset by the forgiveness of PPP loans and a decrease in owner-occupied commercial real estate loans.

Nonowner-occupied loans totaled $513.1 million at December 31, 2022, an increase of $76.9 million, or 17.6% compared to $436.2 million at December 31, 2021, primarily due to organic growth.

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 and industrial loan portfolio. We have increased our emphasis on originating commercial and industrial and commercial real estate loans.

Loan Concentrations. Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. At December 31, 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.

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

(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
Mortgage loans on real estate:						
Construction and development	$ 97,765	$ 50,271	$ 29,689	$ 10,229	$ 13,679	$ 201,633
1-4 Family	50,523	73,898	58,875	26,143	191,938	401,377
Multifamily	6,603	61,411	12,237	443	1,118	81,812
Farmland	5,826	4,839	2,212	—	—	12,877
Commercial real estate						
Owner-occupied	27,834	90,097	204,710	113,557	8,950	445,148
Nonowner-occupied	31,938	269,193	174,003	37,743	218	513,095
Commercial and industrial	169,481	91,399	103,855	62,287	8,071	435,093
Consumer	3,058	8,864	1,294	348	168	13,732
Total loans	$ 393,028	$ 649,972	$ 586,875	$ 250,750	$ 224,142	$ 2,104,767
Loans with fixed rates:						
Mortgage loans on real estate:						
Construction and development	$ 12,195	$ 49,723	$ 29,689	$ 10,229	$ 13,679	$ 115,515
1-4 Family	14,451	66,799	58,875	26,143	191,938	358,206
Multifamily	6,303	58,263	5,552	443	1,118	71,679
Farmland	2,860	3,638	2,212	—	—	8,710
Commercial real estate						
Owner-occupied	19,772	75,244	162,832	92,636	2,237	352,721
Nonowner-occupied	24,373	249,642	141,039	18,813	218	434,085
Commercial and industrial	40,315	62,914	103,855	62,287	8,071	277,442
Consumer	2,323	8,864	1,294	348	168	12,997
Total loans with fixed rates	$ 122,592	$ 575,087	$ 505,348	$ 210,899	$ 217,429	$ 1,631,355
Loans with variable rates:						
Mortgage loans on real estate:						
Construction and development	$ 85,570	$ 548	$ —	$ —	$ —	$ 86,118
1-4 Family	36,072	7,099	—	—	—	43,171
Multifamily	300	3,148	6,685	—	—	10,133
Farmland	2,966	1,201	—	—	—	4,167
Commercial real estate						
Owner-occupied	8,062	14,853	41,878	20,921	6,713	92,427
Nonowner-occupied	7,565	19,551	32,964	18,930	—	79,010
Commercial and industrial	129,166	28,485	—	—	—	157,651
Consumer	735	—	—	—	—	735
Total loans with variable rates	$ 270,436	$ 74,885	$ 81,527	$ 39,851	$ 6,713	$ 473,412

Loan Deferral Program. In response to the COVID-19 pandemic, beginning in the first quarter of 2020, the Bank offered short-term modifications to borrowers impacted by the pandemic who were current and otherwise not past due. These included short-term modifications of 90 days or less, in the form of deferrals of payment of principal and interest, principal only, or interest only, and fee waivers. As 90-day loan deferrals have expired, most affected customers have returned to their regular payment schedules. In accordance with applicable law and regulatory guidance adopted in response to the pandemic, we have not accounted for such loans as troubled debt restructurings ("TDRs"), nor have we designated them as past due or nonaccrual. The Bank ceased offering loan deferrals related to COVID-19 during the fourth quarter of 2021. At December 31, 2022, no loans remained on deferral, compared to less than $0.2 million at December 31, 2021.

The Bank also instituted a 90-day deferral program for eligible customers who were impacted by Hurricane Ida beginning in the third quarter of 2021. The Bank has provided payment deferrals on approximately $50.0 million of loans. At December 31, 2022, no loans remained on deferral, compared to approximately $2.4 million, or 0.1% of the total loan portfolio, remaining on a 90-day deferral plan related to Hurricane Ida at December 31, 2021.

Investment Securities

We purchase investment securities primarily to provide a source for meeting liquidity needs, with return on investment as a secondary consideration. We also use investment securities as collateral for certain deposits and other types of borrowings. Investment securities represented 15% of our total assets and totaled $413.5 million at December 31, 2022, an increase of $47.7 million, or 13.0%, from $365.8 million at December 31, 2021. The increase in investment securities at December 31, 2022 compared to December 31, 2021 resulted from purchases of multiple investment types in our current portfolio, primarily mortgage-backed securities.

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

	December 31,			
	2022		2021	
	Balance	**Percentage of Portfolio**	**Balance**	**Percentage of Portfolio**
Obligations of the U.S Treasury and U.S. government agencies and corporations	$ 29,805	7.2%	$ 21,268	5.8%
Obligations of state and political subdivisions	23,916	5.8	39,495	10.8
Corporate bonds	29,942	7.2	27,667	7.6
Residential mortgage-backed securities	254,618	61.6	203,249	55.6
Commercial mortgage-backed securities	75,191	18.2	74,085	20.2
Total investment securities	$ 413,472	100%	$ 365,764	100%

The investment portfolio consists of available for sale and held to maturity securities. We do not hold any investments classified as trading. We classify debt securities as held to maturity if management has the positive intent and ability to hold the securities to maturity. Held to maturity securities are stated at amortized cost. Securities not classified as held to maturity are classified as available for sale and are stated at fair value. The carrying values of the Company's available for sale securities are adjusted for unrealized gains or losses as valuation allowances, and any gains or losses are reported on an after-tax basis as a component of other comprehensive loss. 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 loss, net of taxes. Please refer to Note 1. Summary of Significant Accounting Policies – Recent Accounting Pronouncements, in the Notes to Consolidated Financial Statements contained in *Item 8. Financial Statements and Supplementary Data* for information regarding our adoption, effective January 1, 2023, of ASU 2016-13, which will impact how we account for our securities portfolio.

Typically, our investment securities are available for sale. There were no purchases of held to maturity securities during the years ended December 31, 2022 and 2021. In the year ended December 31, 2022, we purchased $181.6 million of investment securities, compared to purchases of $255.5 million during the year ended December 31, 2021. Mortgage-backed securities represented 84% and 73% of the available for sale securities we purchased in 2022 and 2021, respectively. Of the remaining securities purchased in 2022 and 2021, 9%, and 18%, respectively, were U.S. Treasury and U.S. government agencies and corporations securities, 5% and 4%, respectively were corporate bonds, and 2% and 5%, respectively, were municipal securities. We only purchase corporate bonds that are investment grade securities issued by seasoned corporations. Due in large part to higher interest rates and market volatility during 2022, at December 31, 2022, unrealized losses in our investment portfolio totaled $62.5 million.

The table below sets forth the stated maturities and weighted average yields of our investment debt securities based on the amortized cost of our investment portfolio as of December 31, 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 states and political subdivisions	$ 915	5.88%	$ 960	5.88%	$ 3,663	3.59%	$ —	—%
Residential mortgage-backed securities	—	—	—	—	—	—	2,767	3.06
Available for sale:								
Obligations of the U.S Treasury and U.S. government agencies and corporations	490	2.92	14,999	3.53	14,881	4.84	—	—
Obligations of states and political subdivisions	342	3.14	1,573	2.56	10,257	2.41	8,926	2.77
Corporate bonds	250	5.37	12,176	3.65	17,051	4.25	4,000	2.69
Residential mortgage-backed securities	—	—	—	—	6,349	2.78	292,518	2.26
Commercial mortgage-backed securities	—	—	3,704	2.72	3,555	2.82	76,245	3.07
	$ 1,997		$ 33,412		$ 55,756		$384,456	

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

Premises and Equipment

Bank premises and equipment decreased $8.5 million, or 14.6%, to $49.6 million at December 31, 2022 from $58.1 million at December 31, 2021. The decrease was attributable to the closure of two branches in Louisiana and the sale of three tracts of land that were being held as future branch locations, which decreased bank premises and equipment by $3.2 million and $3.5 million, respectively. Bank premises and equipment increased $1.8 million, or 3.2%, to $58.1 million at December 31, 2021 from $56.3 million at December 31, 2020. The increase was attributable to the acquisition of four branch locations in Calhoun County, Alabama as a result of our acquisition of Cheaha which increased bank premises and equipment by $5.4 million, and was partially offset by the closure of two branches, one in Louisiana and one in Texas, which decreased bank premises and equipment by $2.3 million.

Deferred Tax Asset/Liability

At December 31, 2022, the net deferred tax asset was $16.4 million, compared to net deferred tax assets of $2.2 million and $1.4 million at December 31, 2021 and 2020, respectively. The increase in the deferred tax asset at December 31, 2022 compared to December 31, 2021 was primarily driven by a decrease in the fair value of the Bank's available for sale securities portfolio. The increase in the deferred tax asset at December 31, 2021 compared to December 31, 2020 was primarily driven by the deferred compensation agreements acquired from Cheaha in April 2021 and a timing difference in recognizing payroll tax expenses.

The Bank acquired net operating loss carryforwards as a result of acquisitions. At December 31, 2022, we held approximately $0.1 million and $0.8 million in net operating loss carryforwards that expire in 2033 and 2039, respectively. U.S. tax law imposes annual limitations under Internal Revenue Code Section 382 on the amount of net operating loss carryforwards that may be used to offset federal taxable income. Under these laws, we may apply up to approximately $0.6 million to offset our taxable income each year. In addition to this limitation, our ability to utilize net operating loss carryforwards depends upon the Company generating taxable income. Given the substantial amount of time before our net operating loss carryforwards begin to expire, we currently expect to utilize these net operating loss carryforwards in full before their expiration.

Deposits

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

	December 31,			
	2022		2021	
	Amount	Percentage of Total Deposits	Amount	Percentage of Total Deposits
Noninterest-bearing demand deposits	$ 580,741	27.9%	$ 585,465	27.6%
Interest-bearing demand deposits	565,598	27.1	650,868	30.7
Money market deposit accounts	208,596	10.0	255,501	12.1
Savings accounts	155,176	7.5	180,837	8.5
Time deposits	572,254	27.5	447,595	21.1
Total deposits	$ 2,082,365	100%	$ 2,120,266	100%

Total deposits were $2.08 billion at December 31, 2022, a decrease of $37.9 million, or 1.8%, from total deposits of $2.12 billion at December 31, 2021. The increase in time deposits compared to December 31, 2021 is due to increased rates offered to remain competitive in our markets, as we adjusted our strategy in response to the rising interest rate environment after running off higher yielding time deposits through the end of the second quarter of 2022. The decreases in the remaining categories compared to December 31, 2021 are primarily driven by customers drawing down on their existing deposit accounts. During 2021, we experienced large increases in both noninterest and interest-bearing demand deposits, and in money market deposit accounts and savings accounts, primarily driven by reduced spending by consumer and business customers related to the COVID-19 pandemic, and increases in PPP borrowers' deposit accounts.

The Company had no brokered demand deposits at December 31, 2022 and 2021. Prior to December 31, 2021, the Bank utilized brokered demand deposits to satisfy the borrowings under its interest rate swap agreements due to more favorable pricing. In the third quarter of 2021, we voluntarily terminated multiple swap agreements, the borrowings for which matured in October 2021. During 2022, we voluntarily terminated our remaining interest rate swap agreements.

Estimated uninsured deposits were $701.1 million and $719.8 million at December 31, 2022 and 2021, respectively. The estimates are based on the same methodologies and assumptions used for our regulatory reporting requirements. The insured deposit data for 2022 and 2021 does not reflect an evaluation of all of the account ownership category distinctions that would determine the availability of deposit insurance to individual accounts based on FDIC regulations.

The following table shows scheduled maturities of time deposits in excess of the FDIC insurance limit of $250,000 at December 31, 2022 and 2021 (dollars in thousands).

	December 31,	
Time remaining until maturity:	2022	2021
Three months or less	$ 63,006	$ 21,644
Over three months through six months	13,610	16,490
Over six months through twelve months	58,672	25,024
Over twelve months	14,228	14,211
Total	$ 149,516	$ 77,369

Borrowings

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 ("FNBB") and The Independent Bankers Bank ("TIB") totaling $60.0 million, subordinated debt issued in 2019 and 2022, and junior subordinated debentures assumed through acquisitions.

Our advances from the FHLB were $387.0 million at December 31, 2022, an increase of $308.5 million from FHLB advances of $78.5 million at December 31, 2021. FHLB advances are used to fund increased loan and investment activity that is not funded by deposits or other borrowings. We had no outstanding balances drawn on the unsecured lines of credit at December 31, 2022 or 2021. We had no securities sold under agreements to repurchase at December 31, 2022 compared to $5.8 million at December 31, 2021. Junior subordinated debt of $8.5 million and $8.4 million at December 31, 2022 and 2021, respectively, represents the junior subordinated debentures that we assumed in connection with our acquisitions of Cheaha in 2021, BOJ Bancshares, Inc. in 2017 ("BOJ"), and First Community Bank in 2013.

The average balances and cost of short-term borrowings for the years ended December 31, 2022, 2021 and 2020 are summarized in the table below (dollars in thousands).

	Average Balances			Cost of Short-term Borrowings		
	December 31,			December 31,		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Federal funds purchased and other short-term borrowings	$ 132,703	$ 3,242	$ 60,243	3.08%	0.20%	1.15%
Securities sold under agreements to repurchase	1,489	6,081	5,080	0.15	0.21	0.30
Total short-term borrowings	$ 134,192	$ 9,323	$ 65,323	3.05%	0.20%	1.09%

2032 Notes. 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 $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. The 2032 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 2032 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 2032 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 2032 Notes, the interest rate on the 2032 Notes during the applicable floating rate period may be determined based on a rate other than three-month term SOFR. The 2032 Notes may be redeemed, 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 we made 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 2032 Notes are subject to acceleration only in limited circumstances in the case of certain bankruptcy and insolvency-related events. The 2032 Notes are the unsecured, subordinated obligations of the Company and rank junior in right of payment to our current and future senior indebtedness and to our obligations to our general creditors. The 2032 Notes are intended to qualify as Tier 2 capital for regulatory purposes.

We used the majority of the net proceeds to redeem our 2027 Notes in June 2022, and utilized the remaining proceeds for share repurchases and for general corporate purposes.

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

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

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

2027 Notes. On March 24, 2017, the Company issued $18.6 million in aggregate principal amount of its 2027 Notes due March 20, 2027 at 100% of the aggregate principal amount of the 2027 Notes.

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

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

In June 2022, we redeemed the 2027 Notes in full in accordance with their terms at a redemption price equal to 100% of the outstanding principal balance plus accrued and unpaid interest up to but excluding the June 30, 2022 redemption date ("Redemption Date") . The aggregate redemption price, excluding accrued interest, totaled $18.6 million. Interest on the 2027 Notes no longer accrued on or after the Redemption Date.

Stockholders' Equity

Stockholders' equity was $215.8 million at December 31, 2022, a decrease of $26.8 million, or 11.1%, compared to December 31, 2021. The decrease in stockholders' equity is primarily attributable to an increase in accumulated other comprehensive loss due to a decrease in the fair value of the Bank's AFS securities portfolio, partially offset by net income for fiscal year 2022.

Results of Operations

Performance Summary

2022 vs. 2021. For the year ended December 31, 2022, net income was $35.7 million, or $3.54 per basic common share and $3.50 per diluted common share, compared to net income of $8.0 million, or $0.77 per basic common share and $0.76 per diluted common share, for the year ended December 31, 2021. The primary driver of the increase in net income is related to a decrease in provision for loan losses due to the $21.6 million impairment charge recorded during the third quarter of 2021 as a result of Hurricane Ida. As shown on the consolidated statement of income for the year ended December 31, 2022, a provision for loan losses of $2.9 million was recorded, compared to a provision for loan losses of $22.9 million for the year ended December 31, 2021. We had record annual net income in 2022 primarily as a result of increases in interest income and noninterest income as well as a decrease in noninterest expense compared to 2021. Return on average assets increased to 1.37% for the year ended December 31, 2022 from 0.31% for the year ended December 31, 2021. Return on average equity was 15.63% for the year ended December 31, 2022 compared to 3.22% for the year ended December 31, 2021. The increase in both return on average assets and return on average equity is mainly attributable to the $27.7 million increase in net income.

2021 vs. 2020. For the year ended December 31, 2021, net income was $8.0 million, or $0.77 per basic common share and $0.76 per diluted common share, compared to net income of $13.9 million, or $1.27 per basic and diluted common share, for the year ended December 31, 2020. The primary drivers of the decrease in net income are related to an increase in provision for loan losses due to the $21.6 million impairment charge recorded during the third quarter of 2021 as a result of Hurricane Ida, along with increases in salaries and benefits expense, other operating expenses, and acquisition expenses primarily related to our organic growth and acquisition activity. As shown on the consolidated statement of income for the year ended December 31, 2021, a provision for loan losses of $22.9 million was recorded, compared to a provision for loan losses of $11.2 million for the year ended December 31, 2020. We had record quarterly net income in each quarter of 2021 other than the third quarter, as market conditions improved and our cost of funds decreased compared to 2020. Return on average assets decreased to 0.31% for the year ended December 31, 2021 from 0.61% for the year ended December 31, 2020. Return on average equity was 3.22% for the year ended December 31, 2021 compared to 5.77% for the year ended December 31, 2020. The decrease in both return on average assets and return on average equity is mainly attributable to the $5.9 million decrease in net income.

Net Interest Income and Net Interest Margin

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

The primary factors affecting net interest margin are changes in interest rates, competition, and the shape of the interest rate yield curve. The Federal Reserve Board sets various benchmark rates, including the federal funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. On March 3, 2020, the Federal Reserve lowered the federal funds target rate to 1.00% to 1.25%, which the Federal Reserve stated was in response to the evolving risks to economic activity posed by the coronavirus. In a measure aimed at lessening the economic impact of COVID-19, the Federal Reserve reduced the federal funds target rate to 0% to 0.25% on March 16, 2020, where it remained until March 2022 when the Federal Reserve began increasing the federal funds target rate a total of seven times during 2022 to 4.25% to 4.50% as discussed in *Certain Events That Affect Year-over-Year Comparability – Rising Inflation and Interest Rates.*

2022 vs. 2021. Net interest income increased 7.1% to $89.8 million for the year ended December 31, 2022 from $83.8 million for the same period in 2021. Net interest margin was 3.67% for the year ended December 31, 2022, an increase of 14 basis points from 3.53% for the year ended December 31, 2021. The increase in net interest income resulted primarily from increases in both the volume of interest-earning assets and the yield earned on those assets, primarily in our investment securities portfolio and to a lesser extent our loan portfolio, and a decrease in the volume of interest-bearing liabilities, partially offset by an increase in the rates paid on interest-bearing liabilities. For the year ended December 31, 2022, average loans and average investment securities increased approximately $35.2 million and $165.3 million, respectively, while average interest-bearing deposits decreased approximately $110.1 million. The increase in average loans is primarily driven by organic growth, and the increase in average investment securities is driven by purchases of investment securities. The decrease in the average balance of interest-bearing deposits was driven by a decrease in the average balance of brokered demand deposits due to the timing of terminations of our interest rate swap agreements and a decrease in the average balance of time deposits due to management's strategy to run off higher yielding time deposits through the end of the second quarter of 2022. Average short-term borrowings increased approximately $124.9 million compared to the same period in 2021 as we utilized advances from the FHLB to fund loan growth and investment activity. Our yield on interest-earning assets increased as did our rate paid on interest-bearing liabilities primarily as a result of the overall increase in prevailing interest rates.

Although our net interest margin increased from 2021 to 2022, we experienced margin pressure later in 2022. During 2022, as we raised rates offered on deposits and incurred higher costs on our borrowings, comparing the three months ended December 30, 2021 and the three months ended December 31, 2022, respectively, our yield on interest-earning assets increased from 3.95% to 4.57% while the cost of our total interest-bearing liabilities increased from 0.52% to 1.45%, producing a seven basis point decrease in our net interest margin from 3.57% to 3.50%. We may experience additional pressure on our net interest margin during 2023 if our cost of funds increases faster than the yield on our interest-earning assets.

Interest income was $104.6 million for the year ended December 31, 2022 compared to $95.5 million for the same period in 2021. Loan interest income made up substantially all of our interest income for the years ended December 31, 2022 and 2021, although interest on investment securities contributed 9.8% of interest income for the year ended December 31, 2022 compared to 4.7% for the same period in 2021. Interest on our commercial real estate loans, commercial and industrial loans, and 1-4 family residential real estate loans constituted the three largest components of our loan interest income for the years ended December 31, 2022 and 2021 at 84% and 83% of total interest income on loans, respectively. The overall yield on interest-earning assets increased 26 basis points to 4.28% for the year ended December 31, 2022 compared to 4.02% for the same period in 2021. The loan portfolio yielded 4.82% for the year ended December 31, 2022 compared to 4.74% for the year ended December 31, 2021. The increase in yield on our loan portfolio was driven primarily by higher yields on commercial real estate loans and 1-4 family residential real estate loans. In addition, the yield on the investment portfolio was 2.23% for the year ended December 31, 2022 compared to 1.52% for the year ended December 31, 2021.

Interest expense was $14.8 million for the year ended December 31, 2022, an increase of $3.1 million compared to interest expense of $11.7 million for the year ended December 31, 2021. The increase in interest expense is primarily attributable to the increase in the rates paid for interest-bearing liabilities, primarily short-term borrowings, partially offset by the decrease in the volume of interest-bearing liabilities for the year ended December 31, 2022 compared to December 31, 2021. For the year ended December 31, 2022, the cost of short-term borrowings increased 285 basis points to 3.05% due to an increase in the federal funds target rate. As previously discussed, the federal funds target rate increased from 0% to 0.25% to 4.25% to 4.50% during 2022, which affects the rate the Company pays for immediately available overnight funds, long-term borrowings, and deposits. For the year ended December 31, 2022, the cost of interest-bearing deposits decreased four basis points to 0.42% and the cost of interest-bearing liabilities increased 17 basis points to 0.84% compared to the same period in 2021.

2021 vs. 2020. For a detailed discussion of our net interest income and net interest margin performance for 2021 compared to 2020, see our annual report on Form 10-K for the year ended December 31, 2021, *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Net Interest Income and Net Interest Margin –2021 vs. 2020, and – Volume/Rate Analysis.*

Average Balances and Yields. The following table sets forth average balance sheet data, including all major categories of interest-earning assets and interest-bearing liabilities, together with the interest earned or paid and the average yield or rate paid on each such category as of and for the years ended December 31, 2022, 2021 and 2020. Averages presented below are daily averages (dollars in thousands).

	As of and for the years ended December 31,								
	2022			2021			2020		
	Average Balance	Interest Income/ Expense(1)	Yield/ Rate(1)	Average Balance	Interest Income/ Expense(1)	Yield/ Rate(1)	Average Balance	Interest Income/ Expense(1)	Yield/ Rate(1)
Assets									
Interest-earning assets:									
Loans	$ 1,937,255	$ 93,373	4.82 %	$ 1,902,070	$ 90,230	4.74 %	$ 1,786,302	$ 87,365	4.89 %
Securities:									
Taxable	442,767	9,796	2.21	275,963	3,948	1.43	255,405	4,927	1.93
Tax-exempt	18,746	482	2.57	20,259	552	2.73	25,024	686	2.74
Interest-earning balances with banks	45,542	918	2.02	176,349	812	0.46	42,852	816	1.90
Total interest-earning assets	2,444,310	104,569	4.28	2,374,641	95,542	4.02	2,109,583	93,794	4.45
Cash and due from banks	34,327			39,262			27,768		
Intangible assets	43,588			41,299			32,190		
Other assets	103,711			138,096			119,994		
Allowance for loan losses	(22,093)			(20,704)			(15,272)		
Total assets	$ 2,603,843			$ 2,572,594			$ 2,274,263		
Liabilities and stockholders' equity									
Interest-bearing liabilities:									
Deposits:									
Interest-bearing demand deposits	$ 900,405	$ 2,411	0.27 %	$ 858,660	$ 2,398	0.28 %	$ 612,000	$ 3,535	0.58 %
Brokered demand deposits	1,773	7	0.42	77,432	715	0.92	20,308	177	0.87
Savings deposits	173,460	79	0.05	168,194	247	0.15	129,211	401	0.31
Time deposits	427,498	3,753	0.88	508,954	4,127	0.81	640,549	11,263	1.76
Total interest-bearing deposits	1,503,136	6,250	0.42	1,613,240	7,487	0.46	1,402,068	15,376	1.10
Short-term borrowings(2)	134,192	4,093	3.05	9,323	19	0.20	65,323	710	1.09
Long-term debt	127,288	4,441	3.49	129,318	4,222	3.26	128,163	4,174	3.26
Total interest-bearing liabilities	1,764,616	14,784	0.84	1,751,881	11,728	0.67	1,595,554	20,260	1.27
Noninterest-bearing demand deposits	600,286			553,083			418,240		
Other liabilities	10,425			18,852			19,805		
Stockholders' equity	228,516			248,778			240,664		
Total liabilities and stockholders' equity	$ 2,603,843			$ 2,572,594			$ 2,274,263		
Net interest income/net interest margin		$ 89,785	3.67 %		$ 83,814	3.53 %		$ 73,534	3.49 %

(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.

(2) For additional information, see *Discussion and Analysis of Financial Condition – Borrowings*.

Nonaccrual loans were included in the computation of average loan balances but carry a zero yield. The yields include the effect of loan fees of $3.6 million, $3.0 million and $2.4 million for the years ended December 31, 2022, 2021 and 2020, respectively, and discounts and premiums that are amortized or accreted to interest income or expense.

Volume/Rate Analysis. The following tables set forth a summary of the changes in interest earned and interest paid resulting from changes in volume and rates for the year ended December 31, 2022 compared to the year ended December 31, 2021 and the year ended December 31, 2021 compared to the year ended December 31, 2020 (dollars in thousands).

	Year ended December 31, 2022 vs. Year ended December 31, 2021		
	Volume	**Rate**	**Net[1]**
Interest income:			
Loans	$ 1,669	$ 1,474	$ 3,143
Securities:			
Taxable	2,386	3,462	5,848
Tax-exempt	(41)	(29)	(70)
Interest-earning balances with banks	(602)	708	106
Total interest-earning assets	3,412	5,615	9,027
Interest expense:			
Interest-bearing demand deposits	117	(104)	13
Brokered demand deposits	(699)	(9)	(708)
Savings deposits	8	(176)	(168)
Time deposits	(661)	287	(374)
Short-term borrowings	255	3,819	4,074
Long-term debt	(66)	285	219
Total interest-bearing liabilities	(1,046)	4,102	3,056
Change in net interest income	$ 4,458	$ 1,513	$ 5,971

	Year ended December 31, 2021 vs. Year ended December 31, 2020		
	Volume	**Rate**	**Net[1]**
Interest income:			
Loans	$ 5,662	$ (2,797)	$ 2,865
Securities:			
Taxable	397	(1,376)	(979)
Tax-exempt	(131)	(3)	(134)
Interest-earning balances with banks	2,540	(2,544)	(4)
Total interest-earning assets	8,468	(6,720)	1,748
Interest expense:			
Interest-bearing demand deposits	1,425	(2,562)	(1,137)
Brokered demand deposits	496	42	538
Savings deposits	121	(275)	(154)
Time deposits	(2,314)	(4,822)	(7,136)
Short-term borrowings	(609)	(82)	(691)
Long-term debt	38	10	48
Total interest-bearing liabilities	(843)	(7,689)	(8,532)
Change in net interest income	$ 9,311	$ 969	$ 10,280

(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, service charges on deposit accounts, gain on call or sale of investment securities, gains and losses on sales or dispositions of 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, changes in the fair value of equity securities, and income from insurance proceeds. We expect to continue to develop new products that generate noninterest income, and enhance our existing products, in order to diversify our revenue sources.

2022 vs. 2021. Total noninterest income increased $6.3 million, or 52.4%, to $18.4 million for the year ended December 31, 2022 compared to $12.0 million for the year ended December 31, 2021. The increase is primarily due to a $6.2 million increase in swap termination fee income, a $1.4 million increase in income from insurance proceeds, and a $0.7 million increase in service charges on deposit accounts, which were partially offset by $2.3 million decrease in gain on call or sale of investment securities.

Service charges on deposit accounts include maintenance fees on accounts, account enhancement charges for additional deposit account features, per item charges, overdraft fees, and treasury management charges. Service charges on deposit accounts increased 27.6% to $3.1 million for the year ended December 31, 2022 compared to $2.4 million for the same period in 2021.

There was de minimis gain on call or sale of investment securities for the year ended December 31, 2022 compared to $2.3 million for the same period in 2021. We did not sell securities during the year ended December 31, 2022 compared to sales of $137.8 million during the year ended December 31, 2021.

Loss on sale or disposition of fixed assets for the year ended December 31, 2022 decreased to $0.3 million from $0.4 million for the year ended December 31, 2021. During 2022, a loss on sale or disposition of fixed assets of $0.5 million was recorded as a result of the Bank closing two branches in Louisiana, which was partially offset by a gain on sale or disposition of fixed assets as a result of the sale of three tracts of land that were being held for future branch locations. During 2021, the loss on sale or disposition of fixed assets was recorded when the Bank reclassified two branch locations that were closed in 2021, totaling $1.9 million, to other real estate owned.

Swap termination fee income increased to $8.1 million for the year ended December 31, 2022, compared to $1.8 million for the year ended December 31, 2021. Swap termination fee income was recorded when we voluntarily terminated a number of our interest rate swap agreements during the first and second quarters of 2022 and at the end of the third quarter of 2021.

There was de minimis gain on sale of loans for the year ended December 31, 2022, compared to $0.2 million for the year ended December 31, 2021. When the Bank acquired Cheaha on April 1, 2021, it acquired a secondary mortgage loan group that originates mortgage loans for sale.

Servicing fees and fee income on serviced loans decreased $0.1 million, or 63.7%, to $0.1 million, for the year ended December 31, 2022. This decrease is a result of the Bank exiting the indirect auto loan origination business at the end of 2015. Since the Bank did not originate auto loans for sale during the years ended December 31, 2022 and 2021, the servicing portfolio, which experienced regularly scheduled paydowns, was not replaced with new loans. We expect servicing fees and fee income on serviced loans to decrease over time until all serviced loans are paid off.

Interchange fees, which are fees earned on the usage of the Bank's credit and debit cards, increased $0.1 million, or 6.0%, to $2.0 million for year ended December 31, 2022 from $1.9 million for the year ended December 31, 2021. The increase in interchange fees can primarily be attributed to the increase in the volume of debit and credit card transactions.

Income from bank owned life insurance increased $0.2 million to $1.3 million for the year ended December 31, 2022 from $1.1 million for the year ended December 31, 2021. This increase reflects increased interest earned on the Company's bank owned life insurance policies.

Income from insurance proceeds totaled $1.4 million for the year ended December 31, 2022. Nontaxable income related to an insurance policy for the former chief financial officer of the Company and the Bank of $1.4 million was recorded during the fourth quarter of 2022.

Other operating income includes, among other things, credit card, ATM and wire fees, derivative fee income, changes in the net asset value of other investments and rental income. The $0.5 million increase in other operating income for the year ended December 31, 2022 is primarily attributable to a $0.3 million increase in the net asset value of other investments, which represents unrealized net gains on investments in Small Business Investment Company qualified funds and other investment funds, a $0.1 million increase in derivative fee income, and a $0.1 million increase in credit card fees compared to the year ended December 31, 2021.

2021 vs. 2020. For a detailed discussion of our noninterest income for 2021 compared to 2020, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Noninterest Income – 2021 vs. 2020* in our annual report on Form 10-K for the year ended December 31, 2021.

Noninterest Expense

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

2022 vs. 2021. Total noninterest expense was $60.9 million for the year ended December 31, 2022, a decrease of $2.2 million, or 3.5%, from $63.1 million for the year ended December 31, 2021. This decrease was primarily driven by the decreases in salaries and employee benefits, acquisition expense, and depreciation and amortization.

Salaries and employee benefits decreased $0.6 million, or 1.6%, to $35.0 million for the year ended December 31, 2022, compared to $35.5 million for the year ended December 31, 2021. The decrease in salaries and employee benefits is mainly attributable to a decrease in health insurance claims and an increase in the employee retention credit ("ERC"), partially offset by an increase in severance due to the separation agreement with the former chief financial officer of the Company and the Bank. Included in salaries and employee benefits for the years ended December 31, 2022 and 2021 are $2.3 million and $1.9 million, respectively, of ERCs which were recognized as credits to payroll taxes. Please refer to Note 1. Summary of Significant Accounting Policies – Employee Retention Credit, in the Notes to Consolidated Financial Statements contained in *Item 8. Financial Statements and Supplementary Data* for additional discussion regarding the ERCs. As of December 31, 2022, we had 331 full-time and seven part-time employees, compared to 339 full-time and four part-time employees as of December 31, 2021.

Depreciation and amortization decreased $0.6 million, or 11.1%, to $4.4 million for the year ended December 31, 2022, compared to $5.0 million for the year ended December 31, 2021. The decrease in depreciation and amortization is primarily driven by the closure of two branch locations during 2022 and two branch locations during 2021.

Data processing increased $0.5 million, or 15.7%, to $3.6 million for the year ended December 31, 2022 from $3.1 million for the same period in 2021. The increase is mainly attributable to the Bank's investments in multiple technology enhancements for our customers as well as an increase in customers due to organic growth and growth from the acquisition of Cheaha in April 2021.

We did not incur any acquisition expense for the year ended December 31, 2022, compared to $2.4 million for the year ended December 31, 2021. We did not complete any acquisitions in 2022. For the year ended December 31, 2021, acquisition expense resulted from costs related to the acquisition of Cheaha in April 2021.

Occupancy expense increased $0.2 million, or 5.9% to $2.9 million for the year ended December 31, 2022 from $2.8 million for the year ended December 31, 2021. This increase is primarily attributable to increases in utilities and real property taxes for our branch facilities, including the additional four branch locations acquired as part of the acquisition of Cheaha in April 2021.

Other operating expenses include security, business development, FDIC and OCC assessments, bank shares and property taxes, collection and repossession, charitable contributions, repair and maintenance costs, personnel training and development, filing fees, and other costs related to the operation of our business. Other operating expenses increased $0.3 million, or 2.5%, to $12.7 million for the year ended December 31, 2022 from $12.4 million for the year ended December 31, 2021. The increase in other operating expenses was primarily due to an increase in collection and repossession expenses, the majority of which is related to one impaired loan relationship impacted by Hurricane Ida, partially offset by decreases in provision for unfunded loan commitments and telephone expense.

2021 vs. 2020. For a detailed discussion of our noninterest expense for 2021 compared to 2020, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Noninterest Expense – 2021 vs. 2020* in our annual report on Form 10-K for the year ended December 31, 2021.

Income Tax Expense

Income tax expense for the years ended December 31, 2022, 2021 and 2020 was $8.6 million, $1.9 million, and $3.5 million, respectively. The effective tax rates for the years ended December 31, 2022, 2021 and 2020 were 19.5%, 19.3%, and 19.9%, respectively. The effective tax rate differs from the statutory rate of 21% primarily due to nontaxable income from insurance proceeds and tax-exempt interest income earned on certain loans, investment securities and bank owned life insurance.

Risk Management

The primary risks associated with our operations are credit, interest rate and liquidity risk. Higher inflation also presents risks. 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 (Loan grades 1-6)*—Loans not meeting the criteria below are considered pass. These loans have high credit characteristics and financial strength. The borrowers at least generate profits and cash flow that are in line with peer and industry standards and have debt service coverage ratios above loan covenants and our policy guidelines. For some of these loans, a guaranty from a financially capable party mitigates characteristics of the borrower that might otherwise result in a lower grade.

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

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

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

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

At December 31, 2022 and December 31, 2021, there were no loans classified as loss, while there were $0.2 million and $0.7 million, respectively, of loans classified as doubtful, $15.0 million and $46.8 million, respectively, of loans classified as substandard, and $12.8 million and $7.3 million, respectively, of loans classified as special mention as of such dates. Of our aggregate $28.0 million and $54.8 million doubtful, substandard and special mention loans at December 31, 2022 and December 31, 2021, respectively, $4.7 million and $8.6 million, respectively, were acquired and marked to fair value at the time of their acquisition.

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

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

Allowance for Loan Losses. Through December 31, 2022, the allowance for loan losses is an amount that management believes will be adequate to absorb probable losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on an ongoing analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment as recognized under ASC Topic 450, *Contingencies*. Collective impairment is calculated based on loans grouped by grade. Another component of the allowance is losses on loans assessed as impaired under ASC 310. The balance of these loans and their related allowance is included in management's estimation and analysis of the allowance for loan losses. Other considerations in establishing the allowance for loan losses include the nature and volume of the loan portfolio, overall portfolio quality, historical loan loss, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay, as well as trends within each of these factors. The allowance for loan losses is established after input from management as well as our risk management department and our special assets committee. We evaluate the adequacy of the allowance for loan losses on a quarterly basis. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses was $24.4 million at December 31, 2022, an increase compared to $20.9 million at December 31, 2021 and $20.4 million at December 31, 2020. The primary reason for the increase in the allowance for loan losses at December 31, 2022 and 2021 compared to December 31, 2020 is increased loan loss provisioning to reflect our organic loan growth. Please refer to Note 1. Summary of Significant Accounting Policies – Recent Accounting Pronouncements, in the Notes to Consolidated Financial Statements contained in *Item 8. Financial Statements and Supplementary Data* for information regarding our adoption, effective January 1, 2023, of ASU 2016-13, which will impact how we account for our loan allowance and for loans acquired with more than insignificant impairment.

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 premiums or discounts), we recognize impairment through an allowance estimate or a charge-off recorded against the allowance. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual, contractual interest is credited to interest income when received, under the cash basis method.

Impaired loans at December 31, 2022, which include all TDRs and nonaccrual loans individually evaluated for impairment for purposes of determining the allowance for loan losses, were $10.4 million compared to $32.8 million at December 31, 2021, and $19.2 million at December 31, 2020. At December 31, 2022 and December 31, 2021, $0.3 million and $0.6 million, respectively, of the allowance for loan losses were specifically allocated to impaired loans, while $0.2 million of the allowance was specifically allocated to such loans at December 31, 2020. The decrease in impaired loans at December 31, 2022 compared to December 31, 2021 was driven by a large paydown on the loan relationship for which we recorded a $21.6 million impairment in 2021, as discussed in *Certain Events That Affect Year-over-Year Comparability – Hurricane Ida*. Many of the loans comprising the total relationship were placed on nonaccrual following the impairment.

The provision for loan losses is a charge to income in an amount that management believes is necessary to maintain an adequate allowance for loan losses. The provision is based on management's regular evaluation of current economic conditions in our specific markets as well as regionally and nationally, changes in the character and size of the loan portfolio, underlying collateral values securing loans, and other factors which deserve recognition in estimating loan losses. For the years ended December 31, 2022, 2021 and 2020, the provision for loan losses was $2.9 million, $22.9 million, and $11.2 million, respectively. The provision for loan losses for the year ended December 31, 2022 reflects provisioning related to our organic loan growth. The provision for loan losses for the year ended December 31, 2021 includes a $21.6 million impairment charge related to one loan relationship impacted by Hurricane Ida, as discussed in *Certain Events That Affect Year-over-Year Comparability – Hurricane Ida*. Additional provision for loan losses was recorded in the year ended December 31, 2020 primarily as a result of the deterioration of market conditions which were adversely affected by the COVID-19 pandemic.

Acquired loans that are accounted for under ASC 310-30 were marked to market on the date we acquired the loans to values which, in management's opinion, reflected the estimated future cash flows, based on the facts and circumstances surrounding each respective loan at the date of acquisition. If future cash flows are not reasonably estimable, the Company accounts for the acquired loans using the cash basis method. We continually monitor these loans as part of our normal credit review and monitoring procedures for changes in the estimated future cash flows. ASC 310-30 does not permit carry over or recognition of an allowance for loan losses. We did not increase the allowance for loan losses for loans accounted for under ASC 310-30 during 2022 or 2021. In 2020, one acquired loan accounted for under ASC 310-30 required a specific reserve of $0.2 million, which was charged to provision for loan losses.

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

	December 31,					
	2022		2021		2020	
	Allowance for Loan Losses	% of Loans in each Category to Total Loans	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	$ 2,555	9.6%	$ 2,347	10.9%	$ 2,375	11.1%
1-4 Family	3,917	19.1	3,337	19.4	3,370	18.2
Multifamily	999	3.9	673	3.2	589	3.3
Farmland	113	0.6	383	1.1	435	1.4
Commercial real estate	10,718	45.5	9,354	47.9	8,496	43.7
Commercial and industrial	5,743	20.7	4,411	16.6	4,558	21.2
Consumer	319	0.6	354	0.9	540	1.1
Total	$ 24,364	100%	$ 20,859	100%	$ 20,363	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).

	December 31,		
	2022	2021	2020
Mortgage loans on real estate:			
Construction and development	0.12%	0.12%	0.13%
1-4 Family	0.18	0.18	0.18
Multifamily	0.05	0.04	0.03
Farmland	0.01	0.02	0.02
Commercial real estate	0.51	0.50	0.46
Commercial and industrial	0.27	0.23	0.25
Consumer	0.02	0.02	0.02
Total	1.16%	1.11%	1.09%

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

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

	Years ended December 31, 2022	2021	2020
Allowance at beginning of period	$ 20,859	$ 20,363	$ 10,700
Provision for loan losses	2,922	22,885	11,160
Net recoveries (charge-offs)	583	(22,389)	(1,497)
Allowance at end of period	$ 24,364	$ 20,859	$ 20,363
Total loans - period end	2,104,767	1,872,012	1,860,318
Nonaccrual loans - period end	9,986	29,495	13,506
Key Ratios:			
Allowance for loan losses to total loans - period end	1.16%	1.11%	1.09%
Allowance for loan losses to nonaccrual loans - period end	244%	71%	151%
Nonaccrual loans to total loans - period end	0.47%	1.58%	0.73%

The allowance for loan losses to total loans increased to 1.16% at December 31, 2022 compared to 1.11% at December 31, 2021 while the allowance for loan losses to nonaccrual loans ratio increased to 244% at December 31, 2022 from 71% at December 31, 2021. The increase in the allowance for loan losses to total loans at December 31, 2022 is primarily due to the increase in the allowance for loan losses compared to December 31, 2021. The increase in the allowance for loan losses to nonaccrual loans is due to the decrease in nonaccrual loans primarily due to large paydowns on one loan relationship impacted by Hurricane Ida. Nonaccrual loans were $10.0 million, or 0.47% of total loans, at December 31, 2022, a decrease of $19.5 million compared to $29.5 million, or 1.58% of total loans, at December 31, 2021.

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

	Years ended December 31, 2022			2021			2020		
	Net (Charge-offs) Recoveries	Average Balance	Ratio of Net Charge-offs to Average Loans	Net (Charge-offs) Recoveries	Average Balance	Ratio of Net Charge-offs to Average Loans	Net (Charge-offs) Recoveries	Average Balance	Ratio of Net Charge-offs to Average Loans
Mortgage loans on real estate:									
Construction and development	$ 48	$ 210,160	(0.02)%	$ (247)	$ 211,230	0.12%	$ 47	$ 193,764	(0.02)%
1-4 Family	103	380,481	(0.03)	(156)	354,748	0.04	(99)	327,521	0.03
Multifamily	—	56,665	—	—	60,327	—	—	58,664	—
Farmland	13	15,837	(0.08)	(13)	23,128	0.06	—	27,821	—
Commercial real estate	33	901,422	(0.00)	(10,274)	869,098	1.18	(43)	785,431	0.01
Commercial and industrial	535	357,837	(0.15)	(11,641)	362,483	3.21	(1,145)	368,239	0.31
Consumer	(149)	14,853	1.00	(58)	21,056	0.28	(257)	24,862	1.03
Total	$ 583	$1,937,255	(0.03)%	$ (22,389)	$1,902,070	1.18%	$ (1,497)	$1,786,302	0.08%

Charge-offs reflect the realization of losses in the portfolio that were recognized previously through the provision for loan losses. Net recoveries for the year ended December 31, 2022 were $0.6 million, or 0.03% of the average loan balance. Net charge-offs for the years ended December 31, 2021 and 2020 were $22.4 million and $1.5 million respectively, equal to 1.18% and 0.08%, of the average loan balance for the respective periods. Net recoveries for the year ended December 31, 2022, were primarily driven by one $0.9 million recovery on a commercial and industrial loan relationship. The net recoveries in 2022 compared to the net charge-offs in 2021 was primarily due to charge-offs of $21.6 million in the third quarter of 2021 due to the impairment charge related to one loan relationship impacted by Hurricane Ida. Commercial and industrial loans and commercial real estate loans were the categories affected. For the year ended December 31, 2020, the largest category of charge-offs was commercial and industrial loans.

Management believes the allowance for loan losses at December 31, 2022 was sufficient to provide adequate protection against losses in our portfolio based on the accounting standards in effect at the time. However, 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, higher inflation and interest rates than anticipated, 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. Effective January 1, 2023, we adopted ASU 2016-13, which uses a Current Expected Credit Loss ("CECL") accounting standard for the loan allowance. The CECL methodology requires that lifetime "expected credit losses" be recorded at the time the financial asset is originated or acquired, and be adjusted each period for changes in expected lifetime credit losses. The CECL methodology replaces multiple prior impairment models under U.S. GAAP that generally required that a loss be "incurred" before it was recognized, and represents a significant change from prior U.S. GAAP. Please refer to Note 1. Summary of Significant Accounting Policies – Recent Accounting Pronouncements, in the Notes to Consolidated Financial Statements contained in *Item 8. Financial Statements and Supplementary Data* for information regarding our adoption, effective January 1, 2023, of ASU 2016-13, which will impact how we account for our loan allowance and for loans acquired with more than insignificant impairment.

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. 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 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 20 credits classified as TDRs at December 31, 2022 that totaled approximately $3.0 million, compared to 29 credits totaling $10.5 million at December 31, 2021. Twelve of the restructured loans were considered TDRs due to modification of terms through adjustments to maturity, four of the restructured loans were considered TDRs due to a reduction in the interest rate to a rate lower than the current market rate, three restructured loans were considered TDRs due to principal payment forbearance paying interest only for a specified period of time, and one restructured loan was considered a TDR due to principal and interest payment forbearance.

At December 31, 2022 and 2021, none of the TDRs were in default of their modified terms and included in nonaccrual loans. At December 31, 2022 and 2021, there were no available balances on loans classified as TDRs that the Company was committed to lend. The Company individually evaluates each TDR for allowance purposes, primarily based on collateral value, and excludes these loans from the loan population that is collectively evaluated for impairment.

Other Real Estate Owned. Other real estate owned consists of properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure, as well as any properties owned by the Company that are not intended to be used to carry out its operations. These properties are carried at the lower of cost or fair market value based on appraised value less estimated selling costs. Losses arising at the time of foreclosure of properties are charged against the allowance for loan losses. Other real estate owned with a cost basis of $5.8 million and $0.9 million was sold during the years ended December 31, 2022 and 2021, respectively, resulting in a net gain of $9,000 and a net loss of $5,000 for the respective periods, compared to a cost basis of $0.1 million and a net gain of $12,000 for the year ended December 31, 2020.

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

	December 31, 2022	December 31, 2021
1-4 Family	$ 682	$ 168
Commercial real estate	—	2,485
Total other real estate owned	$ 682	$ 2,653

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

	Year ended December 31, 2022	Year ended December 31, 2021
Balance, beginning of period	$ 2,653	$ 663
Additions	3,327	1,023
Transfers from bank premises and equipment	525	1,850
Sales of other real estate owned	(5,823)	(883)
Balance, end of period	$ 682	$ 2,653

Please refer to Note 5. Other Real Estate Owned, in the Notes to Consolidated Financial Statements contained in *Item 8. Financial Statements and Supplementary Data* for additional information.

Impact of Inflation. Inflation reached a near 40-year high in late 2021 primarily due to effects of the ongoing pandemic and continued rising through June 2022. Since June 2022, the rate of inflation has decelerated; however, it has remained at historically high levels through March 2023. 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 increased the federal funds target rate during 2022 as discussed in *Certain Events That Affect Year-over-Year Comparability – Rising Inflation and Interest Rates.* In February 2023, the Federal Reserve increased the federal funds target rate by 25 basis points to 4.50% to 4.75%, and one or more further increases are expected during the remainder of 2023. 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 and Inflation and rising prices may continue to adversely affect our results of operations and financial condition.*

Interest Rate Risk

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

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

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

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

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

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

Within the gap position that management directs, we attempt to structure our assets and liabilities to minimize the risk of either a rising or falling interest rate environment. We manage our gap position for time horizons of one month, two months, three months, four to six months, seven to twelve months, 13-24 months, 25-36 months, 37-60 months and more than 60 months. The goal of our asset/liability management is for the Bank to maintain a net interest income at risk in an up or down 100 basis point environment at less than (5)%. At December 31, 2022, the Bank was within the policy guidelines for asset/liability management.

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

As of December 31, 2022	
Changes in Interest Rates (in basis points)	**Estimated Increase/Decrease in Net Interest Income**[1]
+300	(11.7)%
+200	(7.9)%
+100	(3.7)%
-100	2.1%

(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, and borrowings are greatly influenced by general interest rates, economic conditions, and the competitive environment in which we operate. To minimize funding risks, we closely monitor our liquidity position through periodic reviews of maturity profiles, yield and rate behaviors, and loan and deposit forecasts. Excess short-term liquidity is usually invested in overnight federal funds sold.

Our core deposits, which are deposits excluding time deposits greater than $250,000 and deposits of municipalities and other political entities, are our most stable source of liquidity to meet our cash flow needs due to the nature of the long-term relationships generally established with our customers. Maintaining the ability to acquire these funds as needed in a variety of markets, and within ALCO compliance targets, is essential to ensuring our liquidity. At December 31, 2022 and 2021, 70% 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 December 31, 2022, securities with a carrying value of $165.7 million were pledged to secure deposits or borrowings, 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 December 31, 2022, the balance of our outstanding advances with the FHLB was $387.0 million, an increase from $78.5 million at December 31, 2021. The total amount of the remaining credit available to us from the FHLB at December 31, 2022 was $533.1 million. At December 31, 2022, our FHLB borrowings were collateralized by approximately $930.1 million of the Company's loan portfolio and $0.6 million of the Company's investment securities.

Repurchase agreements are contracts for the sale of securities which we own with a corresponding agreement to repurchase those securities at an agreed upon price and date. Our policies limit the use of repurchase agreements to those collateralized by U.S. Treasury and U.S. agency securities. We had no repurchase agreements outstanding at December 31, 2022, compared to $5.8 million at December 31, 2021.

We maintain unsecured lines of credit with FNBB and TIB totaling $60.0 million. These lines of credit are federal funds lines of credit and are used for overnight borrowing only. There were no outstanding balances on our unsecured lines of credit at December 31, 2022 or 2021.

In addition, at December 31, 2022 and 2021 we had $45.0 million and $43.6 million in aggregate principal amount of subordinated debt outstanding, respectively. For additional information, see Note 11. Subordinated Debt Securities in the Notes to Consolidated Financial Statements contained in *Item 8. Financial Statements and Supplementary Data* and see *Discussion and Analysis of Financial Condition – Borrowings* above.

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. During the years ended December 31, 2022 and 2021, due to more favorable pricing, we used brokered demand deposits to satisfy borrowings under certain interest rate swap agreements that we voluntary terminated. At December 31, 2022 and 2021, we held no brokered demand deposits. We also hold QwickRate® deposits, included in our time deposit balances, to address liquidity needs when rates on such deposits compare favorably with deposit rates in our markets. At December 31, 2022, we held $26.5 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 years ended December 31, 2022 and 2021.

	Percentage of Total Average Deposits and Borrowed Funds		Cost of Funds	
	Years ended December 31,		Years ended December 31,	
	2022	2021	2022	2021
Noninterest-bearing demand	26%	24%	—%	—%
Interest-bearing demand	38	37	0.27	0.28
Brokered demand deposits	—	3	0.42	0.92
Savings deposits	7	7	0.05	0.15
Time deposits	18	22	0.88	0.81
Short-term borrowings	6	1	3.05	0.20
Borrowed funds	5	6	3.49	3.26
Total deposits and borrowed funds	100%	100%	0.63%	0.51%

Capital Management. Our primary sources of capital include retained earnings, capital obtained through acquisitions and proceeds from the sale of our capital stock and subordinated debt. We may issue capital stock and debt securities from time to time to fund acquisitions and support our organic growth. In April 2022, we completed a private placement of $20.0 million in aggregate principal amount of our 2032 Notes, which are structured to quality as Tier 2 capital for regulatory purposes, and used the majority of the proceeds to redeem $18.6 million of our 2027 Notes in June 2022. During 2019, we issued $25.0 million of our 2029 Notes, which are structured to qualify as Tier 2 capital for regulatory capital purposes. For additional information see *Discussion and Analysis of Financial Condition – Borrowings*.

In 2019, we issued 1,290,323 shares of common stock for net proceeds of $28.5 million and 763,849 shares of common stock in connection with our acquisition of Mainland Bank. We issued 799,559 shares of common stock in connection with our acquisition of BOJ in 2017. During 2022, we paid $3.6 million in dividends, compared to $3.1 million in 2021 and $2.7 million in 2020. Our board of directors has authorized a share repurchase program and during 2022 we paid $10.5 million to repurchase our shares, compared to $6.9 million in 2021 and $11.1 million in 2020. On April 21, 2022 and September 21, 2022, the board of directors approved an additional 400,000 shares and 300,000 shares, respectively, of the Company's common stock for repurchase. At December 31, 2022, we had 386,714 shares of our common stock remaining authorized for repurchase under the program.

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

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

Capital Tiers[(1)]	**Tier 1 Leverage Ratio**	**Common Equity Tier 1 Capital Ratio**	**Tier 1 Capital Ratio**	**Total Capital Ratio**	**Ratio of Tangible to Total Asset**
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 as of December 31, 2022, 2021 and 2020. The Bank also was considered "well-capitalized" under the OCC's prompt corrective action regulations as of these dates.

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

	Actual		Minimum Capital Requirement to be Well Capitalized	
	Amount	**Ratio**	**Amount**	**Ratio**
December 31, 2022				
Investar Holding Corporation:				
Tier 1 capital to average assets (leverage)	$ 231,048	8.53%	$ —	—%
Tier 1 common equity to risk-weighted assets	221,548	9.79	—	—
Tier 1 capital to risk-weighted assets	231,048	10.21	—	—
Total capital to risk-weighted assets	300,009	13.25	—	—
Investar Bank:				
Tier 1 capital to average assets (leverage)	267,603	9.89	135,344	5.00
Tier 1 common equity to risk-weighted assets	267,603	11.83	147,044	6.50
Tier 1 capital to risk-weighted assets	267,603	11.83	180,977	8.00
Total capital to risk-weighted assets	292,339	12.92	226,221	10.00
December 31, 2021				
Investar Holding Corporation:				
Tier 1 capital to average assets (leverage)	$ 206,899	8.12%	$ —	—%
Tier 1 common equity to risk-weighted assets	197,399	9.45	—	—
Tier 1 capital to risk-weighted assets	206,899	9.90	—	—
Total capital to risk-weighted assets	271,416	12.99	—	—
Investar Bank:				
Tier 1 capital to average assets (leverage)	244,541	9.60	127,313	5.00
Tier 1 common equity to risk-weighted assets	244,541	11.72	135,651	6.50
Tier 1 capital to risk-weighted assets	244,541	11.72	166,956	8.00
Total capital to risk-weighted assets	266,069	12.75	208,694	10.00

Swap Contracts. The Bank historically has entered 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. At December 31, 2022 the Company had no current or forward starting interest rate swap agreements. At 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 $115.0 million, all of which were designated as cash flow hedges.

During the year ended December 31, 2022, the Company voluntarily terminated its remaining interest rate swap agreements with a total notional amount of $115.0 million in response to market conditions. During year ended December 31, 2021, the Company voluntarily terminated interest rate swap agreements with a total notional amount of $150.0 million in response to market conditions and as a result of excess liquidity. For years ended December 31, 2022, and December 31, 2021, unrealized gains of $6.4 million and $1.4 million, respectively, net of tax expenses of $1.7 million and $0.4 million, respectively, were reclassified from “Accumulated other comprehensive (loss) income” and recorded as “Swap termination fee income” in noninterest income in the accompanying consolidated statements of income.

For the year ended December 31, 2022, a gain of $4.3 million, net of a $1.2 million tax expense, was recognized in “Other comprehensive loss” in the accompanying consolidated statements of comprehensive (loss) income for the change in fair value of the interest rate swap contracts. For the years ended December 31, 2021 and December 31, 2020, a gain of $5.3 million, net of a $1.4 million tax expense, and a loss of $2.3 million net of a $0.6 million tax benefit, respectively, was recognized in “Other comprehensive loss” in the accompanying consolidated statements of comprehensive (loss) income for the change in fair value of the interest rate swap contracts.

The Company also enters into interest rate swap contracts that allow commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to an interest rate swap agreement, which serves to effectively swap the customer’s variable-rate loan into a fixed-rate loan. The Company then enters into a corresponding swap agreement with a third party in order to economically hedge its exposure through the customer agreement. The interest rate swaps with both the customers and third parties are not designated as hedges under FASB ASC Topic 815, Derivatives and Hedging, and are marked to market through earnings. As the interest rate swaps are structured to offset each other, changes to the underlying benchmark interest rates considered in the valuation of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit quality variations between counterparties, which may impact earnings as required by FASB ASC Topic 820, Fair Value Measurements. The Company did not recognize any gains or losses in other income resulting from fair value adjustments during the years ended December 31, 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. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded loan commitments is included in "Accrued taxes and other liabilities" in the accompanying consolidated balance sheets. At December 31, 2022 and 2021, the reserve for unfunded loan commitments was $0.4 million and $0.7 million, respectively.

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

	December 31, 2022	December 31, 2021
Commitments to extend credit:		
Loan commitments	$ 333,040	$ 349,701
Standby letters of credit	11,379	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 will continue this process as new commitments are entered into or existing commitments are renewed.

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

For each of the years ended December 31, 2022 and 2021, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations, or cash flows currently or in the future.

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 December 31, 2022, contractually obligated lease payments due under non-cancelable operating leases by payment date (dollars in thousands).

Less than one year	$ 595
One year to three years	991
Three years to five years	680
Over five years	1,012
Total	$ 3,278

On January 27, 2023, we completed the previously announced sale of certain assets, deposits and other liabilities associated with the Alice and Victoria, Texas branch locations to First Community Bank. Upon the completion of the sale, we recorded $0.3 million of occupancy expense to terminate the remaining $0.5 million of contractually obligated lease payments due under non-cancelable operating leases.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Item 8. Financial Statements and Supplementary Data

Management's Report on Internal Control over Financial Reporting

To the Stockholders and Board of Directors

Investar Holding Corporation

Baton Rouge, Louisiana

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

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

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

Management, with the participation of the Company's principal executive officer and principal financial officer, conducted an assessment of the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2022, based on criteria for effective internal control over financial reporting described in the "Internal Control - Integrated Framework," (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as of December 31, 2022, the Company's system of internal control over financial reporting is effective and meets the criteria of the "Internal Control – Integrated Framework."

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

Date: March 8, 2023	By: /s/ John J. D'Angelo John J. D'Angelo President and Chief Executive Officer
Date: March 8, 2023	By: /s/ John R. Campbell John R. Campbell Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Investar Holding Corporation

Opinion on the Internal Control Over Financial Reporting

We have audited Investar Holding Corporation's (the "Company") internal control over financial reporting as of December 31, 2022, based on criteria established in the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the "PCAOB"), the consolidated financial statements of the Company as of December 31, 2022 and our report dated March 8, 2023 expressed an unqualified opinion.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ HORNE LLP

Baton Rouge, Louisiana
March 8, 2023

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Investar Holding Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Investar Holding Corporation (the “Company”) as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows, for each of the three years in the period ended December 31, 2022, and the related notes to the consolidated financial statements (collectively, referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the “PCAOB”), the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 8, 2023, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matter

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

Allowance for Loan Losses

<u>Description of the Matter</u>

As described in Notes 1 and 4 to the financial statements, the Company’s allowance for loan losses is a valuation allowance that reflects the Company’s estimation of incurred losses in its loan portfolio to the extent they are both probable and reasonable to estimate. The allowance for loan losses was $24,364,000 at December 31, 2022, which consists of two components; the allowance for loans individually evaluated for impairment (“specific reserves”) and the allowance for loans collectively evaluated for impairment (“general reserves”).

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

How we Addressed the Matter in Our Audit

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

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

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

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

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

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

/s/ HORNE LLP

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

Baton Rouge, Louisiana
March 8, 2023

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

	December 31, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 30,056	$ 38,601
Interest-bearing balances due from other banks	10,010	57,940
Federal funds sold	193	500
Cash and cash equivalents	40,259	97,041
Available for sale securities at fair value (amortized cost of $467,316 and $356,639, respectively)	405,167	355,509
Held to maturity securities at amortized cost (estimated fair value of $7,922 and $10,727, respectively)	8,305	10,255
Loans held for sale	—	620
Loans, net of allowance for loan losses of $24,364 and $20,859, respectively	2,080,403	1,851,153
Equity securities	27,254	16,803
Bank premises and equipment, net of accumulated depreciation of $22,025 and $19,149, respectively	49,587	58,080
Other real estate owned, net	682	2,653
Accrued interest receivable	12,749	11,355
Deferred tax asset	16,438	2,239
Goodwill and other intangible assets, net	43,147	44,036
Bank owned life insurance	57,379	51,074
Other assets	12,437	12,385
Total assets	$ 2,753,807	$ 2,513,203
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 580,741	$ 585,465
Interest-bearing	1,501,624	1,534,801
Total deposits	2,082,365	2,120,266
Advances from Federal Home Loan Bank	387,000	78,500
Repurchase agreements	—	5,783
Subordinated debt, net of unamortized issuance costs	44,225	42,989
Junior subordinated debt	8,515	8,384
Accrued taxes and other liabilities	15,920	14,683
Total liabilities	2,538,025	2,270,605
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; 9,901,847 and 10,343,494 shares issued and outstanding, respectively	9,902	10,343
Surplus	146,587	154,932
Retained earnings	108,206	76,160
Accumulated other comprehensive (loss) income	(48,913)	1,163
Total stockholders' equity	215,782	242,598
Total liabilities and stockholders' equity	$ 2,753,807	$ 2,513,203

See accompanying notes to the consolidated financial statements.

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

	For the years ended December 31,		
	2022	**2021**	**2020**
INTEREST INCOME			
Interest and fees on loans	$ 93,373	$ 90,230	$ 87,365
Interest on investment securities	10,278	4,500	5,613
Other interest income	918	812	816
Total interest income	104,569	95,542	93,794
INTEREST EXPENSE			
Interest on deposits	6,250	7,487	15,376
Interest on borrowings	8,534	4,241	4,884
Total interest expense	14,784	11,728	20,260
Net interest income	89,785	83,814	73,534
Provision for loan losses	2,922	22,885	11,160
Net interest income after provision for loan losses	86,863	60,929	62,374
NONINTEREST INCOME			
Service charges on deposit accounts	3,090	2,422	1,917
Gain on call or sale of investment securities, net	6	2,321	2,289
Loss on sale or disposition of fixed assets, net	(258)	(408)	(38)
Gain (loss) on sale of other real estate owned, net	9	(5)	12
Swap termination fee income	8,077	1,835	—
Gain on sale of loans	37	199	—
Servicing fees and fee income on serviced loans	74	204	379
Interchange fees	2,036	1,920	1,414
Income from bank owned life insurance	1,305	1,146	894
Change in the fair value of equity securities	(90)	214	268
Income from insurance proceeds	1,384	—	—
Other operating income	2,680	2,194	4,961
Total noninterest income	18,350	12,042	12,096
Income before noninterest expense	105,213	72,971	74,470
NONINTEREST EXPENSE			
Depreciation and amortization	4,435	4,988	4,570
Salaries and employee benefits	34,974	35,527	33,378
Occupancy	2,915	2,753	2,236
Data processing	3,600	3,112	3,069
Marketing	262	275	333
Professional fees	1,774	1,585	1,519
Loss on early extinguishment of subordinated debt	222	—	—
Acquisition expense	—	2,448	1,062
Other operating expenses	12,683	12,374	10,964
Total noninterest expense	60,865	63,062	57,131
Income before income tax expense	44,348	9,909	17,339
Income tax expense	8,639	1,909	3,450
Net income	$ 35,709	$ 8,000	$ 13,889
EARNINGS PER SHARE			
Basic earnings per share	$ 3.54	$ 0.77	$ 1.27
Diluted earnings per share	3.50	0.76	1.27
Cash dividends declared per common share	0.365	0.31	0.25

See accompanying notes to the consolidated financial statements.

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

	For the years ended December 31,		
	2022	2021	2020
Net income	$ 35,709	$ 8,000	$ 13,889
Other comprehensive loss:			
Investment securities:			
Unrealized (loss) gain, available for sale, net of tax (benefit) expense of ($12,993), ($694), and $1,068, respectively	(48,019)	(2,611)	4,017
Reclassification of realized gain, available for sale, net of tax expense of $1, $488, and $481, respectively	(5)	(1,833)	(1,808)
Unrealized loss, transfer from available for sale to held to maturity, net of tax benefit of $0 for all respective periods	(1)	(1)	(1)
Derivative financial instruments:			
Change in fair value of interest rate swaps designated as cash flow hedges, net of tax expense (benefit) of $1,151, $1,396, and ($610), respectively	4,329	5,253	(2,294)
Reclassification of realized gain, interest rate swap termination, net of tax expense of $1,697, $385, and $0, respectively	(6,380)	(1,450)	—
Total other comprehensive loss	(50,076)	(642)	(86)
Total comprehensive (loss) income	$ (14,367)	$ 7,358	$ 13,803

See accompanying notes to the consolidated financial statements.

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

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2019	$ 11,229	$ 168,658	$ 60,198	$ 1,891	$ 241,976
Stock issuance costs	—	(57)	—	—	(57)
Surrendered shares	(15)	(299)	—	—	(314)
Shares repurchased	(662)	(10,450)	—	—	(11,112)
Options exercised	3	43	—	—	46
Dividends declared, $0.25 per share	—	—	(2,702)	—	(2,702)
Stock-based compensation	54	1,590	—	—	1,644
Net income	—	—	13,889	—	13,889
Other comprehensive loss, net	—	—	—	(86)	(86)
Balance, December 31, 2020	$ 10,609	$ 159,485	$ 71,385	$ 1,805	$ 243,284
Surrendered shares	(19)	(348)	—	—	(367)
Shares repurchased	(359)	(6,566)	—	—	(6,925)
Options exercised	47	685	—	—	732
Dividends declared, $0.31 per share	—	—	(3,225)	—	(3,225)
Stock-based compensation	65	1,676	—	—	1,741
Net income	—	—	8,000	—	8,000
Other comprehensive loss, net	—	—	—	(642)	(642)
Balance, December 31, 2021	$ 10,343	$ 154,932	$ 76,160	$ 1,163	$ 242,598
Surrendered shares	(24)	(462)	—	—	(486)
Shares repurchased	(519)	(10,021)	—	—	(10,540)
Options exercised	10	123	—	—	133
Dividends declared, $0.365 per share	—	—	(3,663)	—	(3,663)
Stock-based compensation	92	2,015	—	—	2,107
Net income	—	—	35,709	—	35,709
Other comprehensive loss, net	—	—	—	(50,076)	(50,076)
Balance, December 31, 2022	$ 9,902	$ 146,587	$ 108,206	$ (48,913)	$ 215,782

See accompanying notes to the consolidated financial statements.

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

	For the years ended December 31,		
	2022	**2021**	**2020**
Cash flows from operating activities			
Net income	$ 35,709	$ 8,000	$ 13,889
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,435	4,988	4,570
Provision for loan losses	2,922	22,885	11,160
Amortization of purchase accounting adjustments	(95)	(1,560)	(1,112)
Provision for other real estate owned	—	—	30
Net amortization of securities	972	3,484	2,825
Gain on call or sale of investment securities, net	(6)	(2,321)	(2,289)
Loss on sale or disposition of fixed assets, net	258	408	38
(Gain) loss on sale of other real estate owned, net	(9)	5	(12)
Loss on early extinguishment of subordinated debt	222	—	—
FHLB stock dividend	(152)	(40)	(134)
Stock-based compensation	2,107	1,741	1,644
Deferred taxes	(655)	(547)	(1,388)
Net change in value of bank owned life insurance	(1,305)	(1,143)	(894)
Amortization of subordinated debt issuance costs	66	92	71
Change in the fair value of equity securities	90	(214)	(268)
Loans held for sale:			
Originations	(624)	(10,235)	—
Proceeds from sales	1,281	9,814	—
Gain on sale of loans	(37)	(199)	—
Net change in:			
Accrued interest receivable	(1,394)	2,451	(5,056)
Other assets	(1,732)	(3,086)	(953)
Accrued taxes and other liabilities	695	(1,042)	(4,372)
Net cash provided by operating activities	42,748	33,481	17,749
Cash flows from investing activities			
Proceeds from sales of investment securities available for sale	—	137,803	56,466
Purchases of securities available for sale	(181,636)	(255,455)	(127,123)
Proceeds from maturities, prepayments and calls of investment securities available for sale	60,173	84,729	64,348
Proceeds from maturities, prepayments and calls of investment securities held to maturity	1,933	2,149	1,938
Proceeds from redemption or sale of equity securities	1,225	574	9,283
Purchases of equity securities	(11,615)	(523)	(6,165)
Net (increase) decrease in loans	(225,090)	86,967	(124,736)
Proceeds from sales of other real estate owned	6,071	878	158
Purchases of other real estate owned	—	(501)	—
Proceeds from insurance claims	—	—	232
Proceeds from sales of fixed assets	4,692	194	—
Purchases of fixed assets	(1,056)	(3,318)	(7,590)
Purchases of bank owned life insurance	(5,000)	(8,000)	(6,000)
Purchases of other investments	(718)	(233)	—
Proceeds from sales of other investments	—	—	1,762
Distributions from investments	34	23	93
Cash paid for acquisition of PlainsCapital branches, net of cash acquired	—	—	(10,809)
Cash acquired from acquisition of Cheaha Financial Group, net of cash paid	—	8,112	—
Net cash (used in) provided by investing activities	(350,987)	53,399	(148,143)

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

	For the years ended December 31,		
	2022	**2021**	**2020**
Cash flows from financing activities			
Net (decrease) increase in customer deposits	(38,249)	25,946	143,318
Net (decrease) increase in repurchase agreements	(5,783)	130	2,658
Net increase (decrease) in short-term FHLB advances	333,500	(42,000)	(8,000)
Repayment of long-term FHLB advances	(25,000)	—	(3,100)
Cash dividends paid on common stock	(3,552)	(3,090)	(2,686)
Payments to repurchase common stock	(10,540)	(6,925)	(11,112)
Proceeds from stock options exercised	133	732	46
Proceeds from subordinated debt, net of issuance costs	19,548	—	—
Payments of stock issuance costs	—	—	(57)
Extinguishment of subordinated debt	(18,600)	—	—
Net cash provided by (used in) financing activities	251,457	(25,207)	121,067
Net (decrease) increase in cash and cash equivalents	(56,782)	61,673	(9,327)
Cash and cash equivalents, beginning of period	97,041	35,368	44,695
Cash and cash equivalents, end of period	$ 40,259	$ 97,041	$ 35,368
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Income taxes	$ 8,887	$ 4,207	$ 4,336
Interest on deposits and borrowings	14,409	11,817	20,702
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES			
Transfer from loans to other real estate owned	$ 3,327	$ 521	$ 41
Transfer from bank premises and equipment to other real estate owned	525	1,850	665

See accompanying notes to the consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Basis of Presentation

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

Segments

All of the Company's banking operations are considered by management to be aggregated in one reportable operating segment. Because the overall banking operations comprise substantially all of the consolidated operations, no separate segment disclosures are presented in the accompanying consolidated financial statements.

Principles of Consolidation

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

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions, changes in conditions of our borrowers' industries or changes in the condition of individual borrowers. As described below under "Recent Accounting Pronouncements," the Company will adopt Accounting Standards Update ("ASU") 2016-13 (referred to as the Current Expected Credit Loss standard) effective January 1, 2023, which will change how the Company accounts for the allowance for loan losses. In addition, regulatory agencies, as an integral part of their examination process, will periodically review the Company's allowance. 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, our allowance related to loans will change in the first quarter of 2023 as described below under "Recent Accounting Pronouncements," and it is reasonably possible that the allowance may change materially thereafter in the near term.

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 and, in 2022 and 2023, rising inflation and interest rates have made certain estimates more challenging, including those discussed above.

Investment Securities

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

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

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

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

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

Loans

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

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

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

See *Treatment of Loan Modifications Pursuant to the CARES Act and Interagency Statement* in this Note 1 below for further discussion on the accounting treatment for loans.

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

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

Employee Retention Credit

The CARES Act also provided for an Employee Retention Credit ("ERC"), which is a broad based refundable payroll tax credit that incentivized businesses to retain employees on the payroll during the COVID-19 pandemic. The ERC is a credit against certain employment taxes of up to $5,000 per employee for eligible employers based on certain wages paid after March 12, 2020 through December 31, 2020. In 2021, the tax credit increased to up to $7,000 for each quarter, equal to 70% of qualified wages paid to employees during a quarter, capped at $10,000 of qualified wages per employee per quarter. The ERC terminated effective September 30, 2021. The Company qualified for the ERC based on the significant adverse financial impacts of the COVID-19 pandemic. In the fourth quarter of 2022, Company recorded a $2.3 million reduction to payroll taxes related to the second quarter of 2021, and in the fourth quarter of 2021, the Company recorded a $1.9 million reduction to payroll taxes related to the first quarter of 2021, which are included as part of "Salaries and employee benefits" in noninterest expense on the accompanying consolidated statements of income for the years ended December 31, 2022 and 2021.

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 (sale 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 December 31, 2022*,* there were no loans held for sale, and at December 31, 2021*,* there was $0.6 million in loans held for sale.

Allowance for Loan Losses

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

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

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

In the ordinary course of business, the Bank enters into commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded loan commitments is included in "Accrued taxes and other liabilities" in the accompanying consolidated balance sheets. At December 31, 2022 and 2021 the reserve for unfunded loan commitments was $0.4 million and $0.7 million, respectively.

The Company will adopt ASU 2016-13 effective January 1, 2023, which will change how it accounts for the allowance. See "Recent Accounting Pronouncements" for additional information.

Equity Securities

The Company is a member of the Federal Home Loan Bank ("FHLB") system. Members of the FHLB are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, is restricted as to redemption, and is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. Equity securities also include investments in our other correspondent banks including Independent Bankers Financial Corporation ("IBFC") and First National Bankers Bank ("FNBB") stock. These investments are carried at cost which approximates fair value. The balance of equity securities in our correspondent banks at December 31, 2022 and 2021 was $26.0 million and $15.0 million, respectively.

In addition, equity securities include marketable securities in corporate stocks and mutual funds and totaled $1.2 million and $1.8 million at December 31, 2022 and 2021, respectively.

Bank Premises and Equipment

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

The Company leases certain branch locations under operating lease agreements. The Company also leases certain office facilities to outside parties under operating lessor agreements; however, such leases are not significant. 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 accompanying consolidated balance sheets. Operating lease ROU assets represent the right to use an underlying asset for the lease term and operating 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.

Other Real Estate Owned

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

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

Goodwill and Other Intangible Assets

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

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives and reviewed for impairment in accordance with FASB ASC Topic 360, *Property, Plant, and Equipment.* If impaired, the asset is written down to its estimated fair value. No impairment charges have been recognized through December 31, 2022. Core deposit intangibles representing the value of the acquired core deposit base are generally recorded in connection with business combinations involving banks and branch locations. The Company's policy is to amortize core deposit intangibles over the estimated useful life of the deposit base. The remaining useful lives of core deposit intangibles are evaluated periodically to determine whether events and circumstances warrant revision of the remaining period of amortization. The Company's core deposit intangibles are currently amortized using the sum-of-the-years-digits basis over 10 to 15 years. See Note 8. Goodwill and Other Intangible Assets, for additional information.

Bank Owned Life Insurance

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

Repurchase Agreements

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

Stock-Based Compensation

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

Off-Balance Sheet Credit-Related Financial Instruments

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

Derivative Financial Instruments

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

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

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

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

Income Taxes

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

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

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

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

Revenue Recognition

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

Earnings Per Share

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

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

Statements of Cash Flows

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

Comprehensive Income

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

Troubled Debt Restructurings

The Company periodically grants concessions to its customers in an attempt to protect as much of its investment as possible and minimize the risk of loss. These concessions may include restructuring the terms of a customer loan, thereby adjusting the customer's payment requirements. In accordance with ASU 2011-2, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, in order to be considered a troubled debt restructuring (a "TDR"), the Company must conclude that the restructuring constitutes a concession and the customer is experiencing financial difficulties. The Company defines a concession to a customer as a modification of existing loan terms for economic or legal reasons that it would otherwise not consider. Concessions are typically granted through an agreement with the customer or are imposed by a court of law. Concessions include modifying original loan terms to reduce or defer cash payments required as part of the loan agreement, including but not limited to a reduction of the stated interest rate for the remaining original life of the debt, an extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk characteristics, a reduction of the face amount or maturity amount of the debt, or a reduction of accrued interest receivable on a debt. In its determination of whether the customer is experiencing financial difficulties, the Company considers numerous indicators, including but not limited to, whether the customer has declared or is in the process of declaring bankruptcy, whether there is substantial doubt about the customer's ability to continue as a going concern, whether the Company believes the customer's future cash flows will be insufficient to service the debt in accordance with the contractual terms of the existing agreement for the foreseeable future, and whether without modification the customer cannot obtain sufficient funds from other sources at an effective interest rate equal to the current market rate for similar debt for a non-troubled debtor.

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

Acquisition Accounting

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. The fair value adjustment for performing acquired loans is accreted over the life of the loan using the effective interest method. Estimated credit losses are included in the determination of fair value; therefore, an allowance for loan losses is not recorded on the acquisition date. Subsequent to acquisition, acquired performing loans are evaluated using a similar allowance methodology as the legacy portfolio. An allowance for credit losses is only recorded to the extent that the required reserves exceed the unaccreted fair value adjustment.

Acquired Impaired Loans

The Company accounts for acquired impaired loans under FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (“ASC 310-30”). An acquired loan is considered impaired when there is evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will be unable to collect all contractually required payments. For acquired impaired loans, the Company (a) calculates the contractual amount and timing of undiscounted principal and interest payments (the “undiscounted contractual cash flows”) and (b) estimates the amount and timing of undiscounted expected principal and interest payments (the “undiscounted expected cash flows”). Under ASC 310-30, the difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the loss exposure of principal and interest related to the acquired impaired loan portfolio, and such amount is subject to change over time based on the performance of such loans.

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

Share Repurchases

The Louisiana Business Corporation Act does not include the concept of treasury stock. Rather, shares purchased by the Company constitute authorized but unissued shares. Accounting principles generally accepted in the United States of America state that accounting for treasury stock shall conform to state law. The Company’s consolidated financial statements as of December 31, 2022, 2021 and 2020 reflect this principle. The cost of shares purchased by the Company has been allocated to common stock and surplus balances.

Reclassifications

Certain reclassifications have been made to the 2021 and 2020 financial statements to conform to the 2022 presentation.

Recent Accounting Pronouncements

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

FASB ASC Topic 326 "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments" Update No. 2016-13. The FASB issued ASU 2016-13 in June 2016. The ASU, referred to as Current Expected Credit Loss ("CECL") standard, 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. The CECL methodology requires that lifetime "expected credit losses" be recorded at the time the financial asset is originated or acquired, and be adjusted each period for changes in expected lifetime credit losses. The CECL methodology replaces multiple prior impairment models under U.S. GAAP that generally required that a loss be "incurred" before it was recognized, and represents a significant change from prior U.S. GAAP. In addition, ASU 2016-13 amends the accounting for credit losses on AFS securities and purchased financial assets with credit deterioration. ASU 2016-13 does not specify the method for measuring expected credit losses, and an entity is allowed to apply methods that reasonably reflect its expectations of the lifetime credit loss estimate. The scope of ASU 2016-13 includes loans, HTM securities, lease receivables, loan commitments and financial guarantees that are not accounted for at fair value. Additionally, ASU 2016-13 amends the accounting for credit losses on AFS securities and purchased financial assets with credit deterioration.

As previously disclosed, the Company formed a cross-functional working group, which is comprised of individuals from various functional areas including credit, risk management, finance and information technology. The Company utilized a third-party vendor to assist in developing 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. The Company developed a CECL model methodology that calculates expected credit losses over the life of the portfolio by analyzing the composition, characteristics and quality of the loan and securities portfolios, as well as prevailing economic conditions and forecasts. The Company's CECL calculation estimates loan losses using a combination of discounted cash flow and remaining life analyses.

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 is effective for the Company on January 1, 2023.

Upon adoption of ASU 2016-13, the Company will record a one-time, cumulative adjustment to increase allowance for credit losses and reduce retained earnings, which will be reflected on our balance sheet and will not impact our income statement. The Company expects that the transition will result in a $4.8 million to $7.2 million, or approximately 20% to 30%, increase in the allowance for credit losses on January 1, 2023, and a corresponding decrease in retained earnings of the after-tax amount. The adjustment to allowance for credit losses is an estimate and subject to refinement based on updates to quantitative or qualitative input assumptions or loss estimation factors. The accounting model for loans acquired with more than insignificant impairment was replaced by the purchase credit deteriorated ("PCD") accounting model. For PCD assets, an initial CECL estimate will be recognized through the allowance for credit losses with an offset that increases the amortized cost basis of the PCD asset. Assets currently accounted for under ASC 310-30 will be classified as PCD assets as of January 1, 2023. The Company expects the reclassification from the purchase discount for PCD assets will not have a material effect on the allowance for credit losses. The Company's HTM and AFS securities portfolio were not materially affected by the adoption of ASU 2016-13 due to the composition of the portfolio, which consists primarily of U.S. Treasury and U.S. government agencies and corporations securities and mortgage-backed securities. The Company does not expect the adoption of ASU 2016-13 to have a significant impact on its regulatory capital ratios.

FASB ASC Topic 848 "Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting" Update No. 2020-04 and FASB ASC Topic 848 "Reference Rate Reform: Deferral of the Sunset Date" Update No. 2022-06. 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. In December 2022, the FASB issued ASU 2022-06, which deferred the sunset date from December 31, 2022 to December 31, 2024. This guidance is effective beginning on March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2024. The Company is currently evaluating the provisions of the amendments and the impact on its future consolidated financial statements.

FASB ASC Topic 326 "Financial Instruments – Credit Losses, Troubled Debt Restructurings and Vintage Disclosures" Update No. 2022-02. The FASB issued ASU 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. ASU 2022-02 is effective for the Company on January 1, 2023. The amendment should be applied prospectively. The adoption of ASU 2022-02 is not expected to have a material impact on the Company's consolidated financial statements.

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).

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	240,802
Fair value of liabilities acquired:	
Deposits	206,986
Notes payable	2,327
Other liabilities	2,366
Total liabilities assumed	211,679
Fair value of net assets acquired	29,123
Goodwill	$ 11,944

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.

The $0.9 million decrease in goodwill and other intangible assets at December 31, 2022 compared to December 31, 2021 is attributable to the amortization of our core deposit intangible assets arising from acquisitions. The change in goodwill and other intangibles at December 31, 2021 compared to December 31, 2020 is primarily attributable to the goodwill and core deposit intangibles recorded as a result of the acquisition of Cheaha. Please refer to Note 8. Goodwill and Other Intangible Assets.

Supplemental Unaudited Pro Forma Information

The following unaudited supplemental pro forma information is presented to show estimated results assuming Cheaha was acquired as of January 1, 2020. These unaudited pro forma results are not necessarily indicative of the operating results that the Company would have achieved had it completed the acquisition as of January 1, 2020 and should not be considered representative of future operating results. The pro forma net income for the year ended December 31, 2021 excludes the tax-affected amount of $2.4 million of acquisition expenses recorded in noninterest expense by the Company and Cheaha.

	Unaudited pro forma for the years ended December 31,	
(dollars in thousands)	**2021**	**2020**
Interest income	$ 98,223	$ 104,656
Noninterest income	12,567	13,257
Net income	10,670	17,320

For the year ended December 31, 2021, Cheaha added approximately $6.0 million, $0.8 million, and $3.6 million to interest income, noninterest income, and net income, respectively.

Acquisition Expense

There were no acquisition expenses recorded in the year ended December 31, 2022. Acquisition related costs of $2.4 million are included in "Acquisition expense" in the accompanying consolidated statement of income for the year ended December 31, 2021 and are related to the acquisition of Cheaha.

NOTE 3. INVESTMENT SECURITIES

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

December 31, 2022	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Obligations of the U.S Treasury and U.S. government agencies and corporations	$ 30,370	$ 134	$ (699)	$ 29,805
Obligations of state and political subdivisions	21,098	7	(2,727)	18,378
Corporate bonds	33,477	—	(3,535)	29,942
Residential mortgage-backed securities	298,867	10	(47,026)	251,851
Commercial mortgage-backed securities	83,504	179	(8,492)	75,191
Total	$ 467,316	$ 330	$ (62,479)	$ 405,167

December 31, 2021	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Obligations of the U.S Treasury and 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	$ 356,639	$ 1,935	$ (3,065)	$ 355,509

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

	Twelve months ended December 31,		
	2022	**2021**	**2020**
Proceeds from sales	$ —	$ 137,803	$ 56,466
Gross gains	$ —	$ 2,323	$ 2,300
Gross losses	$ —	$ (2)	$ (11)

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

December 31, 2022	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Obligations of state and political subdivisions	$ 5,538	$ 1	$ (127)	$ 5,412
Residential mortgage-backed securities	2,767	—	(257)	2,510
Total	$ 8,305	$ 1	$ (384)	$ 7,922

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

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

The approximate fair value of AFS securities and unrealized losses, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, are summarized below as of the dates presented (dollars in thousands).

	Less than 12 Months		12 Months or More		Total	
December 31, 2022	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Obligations of the U.S Treasury and U.S. government agencies and corporations	$ 16,017	$ (688)	$ 1,013	$ (11)	$ 17,030	$ (699)
Obligations of state and political subdivisions	13,695	(1,427)	4,524	(1,300)	18,219	(2,727)
Corporate bonds	19,606	(1,170)	10,085	(2,365)	29,691	(3,535)
Residential mortgage-backed securities	134,419	(18,122)	116,132	(28,904)	250,551	(47,026)
Commercial mortgage-backed securities	27,181	(2,632)	32,432	(5,860)	59,613	(8,492)
Total	$ 210,918	$ (24,039)	$ 164,186	$ (38,440)	$ 375,104	$ (62,479)

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

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

	Less than 12 Months		12 Months or More		Total	
December 31, 2022	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Obligations of state and political subdivisions	$ 3,536	$ (127)	$ —	$ —	$ 3,536	$ (127)
Residential mortgage-backed securities	2,510	(257)	—	—	2,510	(257)
Total	$ 6,046	$ (384)	$ —	$ —	$ 6,046	$ (384)

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 investments, current market prices, and the current interest rate environment, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2022 and 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	
December 31, 2022	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 1,082	$ 1,072	$ 915	$ 915
Due after one year through five years	32,452	31,394	960	961
Due after five years through ten years	52,093	48,229	3,663	3,536
Due after ten years	381,689	324,472	2,767	2,510
Total debt securities	$ 467,316	$ 405,167	$ 8,305	$ 7,922

	Securities Available For Sale		Securities Held to Maturity	
December 31, 2021	Amortized Cost	Fair Value	Amortized Cost	Fair Value
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	$ 356,639	$ 355,509	$ 10,255	$ 10,727

At December 31, 2022, securities with a carrying value of $165.7 million were pledged to secure certain deposits, borrowings, and other liabilities, compared to $118.2 million in pledged securities at December 31, 2021.

NOTE 4. 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).

	December 31,	
	2022	2021
Construction and development	$ 201,633	$ 203,204
1-4 Family	401,377	364,307
Multifamily	81,812	59,570
Farmland	12,877	20,128
Commercial real estate	958,243	896,377
Total mortgage loans on real estate	1,655,942	1,543,586
Commercial and industrial	435,093	310,831
Consumer	13,732	17,595
Total loans	$ 2,104,767	$ 1,872,012

Unamortized premiums and discounts on loans, included in the total loans balances above, were $0.8 million and $1.9 million at December 31, 2022 and 2021, respectively. Unearned income, or deferred fees, on loans was $1.3 million and $1.8 million at December 31, 2022 and 2021, respectively and is also included in the total loans balances in the table above.

Nonaccrual and Past Due Loans

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

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

	December 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	$ 201,048	$ 101	$ —	$ 112	$ 372	$ 585	$ —	$ 201,633
1-4 Family	394,846	2,614	1,220	1,188	1,207	6,229	302	401,377
Multifamily	81,812	—	—	—	—	—	—	81,812
Farmland	12,601	152	62	—	62	276	—	12,877
Commercial real estate	951,908	181	22	—	5,523	5,726	609	958,243
Total mortgage loans on real estate	1,642,215	3,048	1,304	1,300	7,164	12,816	911	1,655,942
Commercial and industrial	432,438	406	15	51	2,183	2,655	—	435,093
Consumer	13,347	171	27	—	130	328	57	13,732
Total loans	$2,088,000	$ 3,625	$ 1,346	$ 1,351	$ 9,477	$ 15,799	$ 968	$2,104,767

	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

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 nonowner-occupied property types. The Company manages this risk by avoiding concentrations with any particular customer.

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

Commercial Real Estate. Commercial real estate loans are extensions of credit secured by owner occupied and non-owner occupied collateral. Underwriting generally involves intensive analysis of the financial strength of the borrower and guarantor, liquidation value of the subject collateral, the associated unguaranteed exposure, and any available secondary sources of repayment, with the greatest emphasis given to a borrower's capacity to meet cash flow coverage requirements as set forth by Bank policies. Commercial real estate loans typically depend on the successful operation and management of the businesses that occupy these properties or the financial stability of tenants occupying the properties. Nonowner-occupied commercial real estate loans typically are dependent, in large part, on the owner's ability to rent the property and the ability of the tenants to pay rent, whereas owner-occupied commercial real estate loans typically are dependent, in large part, on the success of the owner's business. 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. Commercial and industrial loans also include public finance loans made to governmental entities, which can be taxable or tax-exempt, and are generally repaid using pledged revenue sources including income tax, property tax, sales tax, and utility revenue, among other sources.

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 December 31, 2022 and 2021, the Company's loan portfolio included PPP loans with balances of $1.7 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.

Concentrations of Credit

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

Credit Quality Indicators

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

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

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

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

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

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

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

	December 31, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and development	$ 198,967	$ 1,593	$ 1,073	$ —	$ 201,633
1-4 Family	399,143	—	2,234	—	401,377
Multifamily	81,812	—	—	—	81,812
Farmland	12,815	—	62	—	12,877
Commercial real estate	942,927	6,101	9,215	—	958,243
Total mortgage loans on real estate	1,635,664	7,694	12,584	—	1,655,942
Commercial and industrial	427,430	5,140	2,336	187	435,093
Consumer	13,636	—	96	—	13,732
Total loans	$ 2,076,730	$ 12,834	$ 15,016	$ 187	$ 2,104,767

	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	$ 1,817,208	$ 7,289	$ 46,825	$ 690	$ 1,872,012

The Company had no loans that were classified as loss at December 31, 2022 or 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 balances of the participations and whole loans sold were $16.9 million and $33.0 million as of December 31, 2022 and 2021, respectively. The unpaid principal balances of these loans were approximately $92.9 million and $91.9 million at December 31, 2022 and 2021, respectively.

Loans to Related Parties

In the ordinary course of business, the Company makes loans to related parties including its executive officers, principal shareholders, directors and their immediate family members, as well as to companies in which these individuals are principal owners. Loans outstanding to such related party borrowers amounted to approximately $97.0 million and $97.6 million as of December 31, 2022 and December 31, 2021, respectively.

The table below shows the aggregate principal balance of loans to such related parties for the years ended December 31, 2022 and 2021 (dollars in thousands).

	December 31, 2022	December 31, 2021
Balance, beginning of period	$ 97,606	$ 96,390
New loans/changes in relationship	14,570	26,475
Repayments/changes in relationship	(15,199)	(25,259)
Balance, end of period	$ 96,977	$ 97,606

Loans Acquired with Deteriorated Credit Quality

The Company accounts for certain loans acquired as acquired impaired loans under ASC 310-30 due to evidence of credit deterioration at acquisition and the probability that the Company will be unable to collect all contractually required payments.

There were no changes in the accretable yield on acquired impaired loans for the years ended December 31, 2022 and 2021.

Allowance for Loan Losses

The table below shows a summary of the activity in the allowance for loan losses for the years ended December 31, 2022, 2021 and 2020 (dollars in thousands).

	December 31, 2022	December 31, 2021	December 31, 2020
Balance, beginning of period	$ 20,859	$ 20,363	$ 10,700
Provision for loan losses	2,922	22,885	11,160
Loans charged-off	(633)	(22,636)	(1,754)
Recoveries	1,216	247	257
Balance, end of period	$ 24,364	$ 20,859	$ 20,363

For the year ended December 31, 2021, the provision for loan losses includes a $21.6 million impairment recorded for one of the Company's loan relationships as a result of Hurricane Ida. The corresponding loan balances in the same amount were then charged off.

The following tables outline the activity in the allowance for loan losses by collateral type for the years ended December 31, 2022, 2021 and 2020, and show both the allowance and portfolio balances for loans individually and collectively evaluated for impairment as of December 31, 2022, 2021 and 2020 (dollars in thousands).

	December 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
Charge-offs	—	(11)	—	(54)	29	(397)	(200)	(633)
Recoveries	48	114	—	67	4	932	51	1,216
Provision	160	477	326	(283)	1,331	797	114	2,922
Ending balance	$ 2,555	$ 3,917	$ 999	$ 113	$ 10,718	$ 5,743	$ 319	$ 24,364
Ending allowance balance for loans individually evaluated for impairment	26	46	—	—	36	112	63	283
Ending allowance balance for loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—
Ending allowance balance for loans collectively evaluated for impairment	2,529	3,871	999	113	10,682	5,631	256	24,081
Loans receivable:								
Balance of loans individually evaluated for impairment	591	1,479	—	62	5,936	2,241	130	10,439
Balance of loans acquired with deteriorated credit quality	—	302	—	—	609	—	57	968
Balance of loans collectively evaluated for impairment	201,042	399,596	81,812	12,815	951,698	432,852	13,545	2,093,360
Total period-end balance	$ 201,633	$401,377	$ 81,812	$ 12,877	$ 958,243	$ 435,093	$ 13,732	$2,104,767

	December 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
Charge-offs	(283)	(188)	—	(13)	(10,280)	(11,713)	(159)	(22,636)
Recoveries	36	32	—	—	6	72	101	247
Provision	219	123	84	(39)	11,132	11,494	(128)	22,885
Ending balance	$ 2,347	$ 3,337	$ 673	$ 383	$ 9,354	$ 4,411	$ 354	$ 20,859
Ending allowance balance for loans individually evaluated for impairment	—	—	—	—	—	468	96	564
Ending allowance balance for loans acquired with deteriorated credit quality	—	—	—	210	—	—	—	210
Ending allowance balance for loans collectively evaluated for impairment	2,347	3,337	673	173	9,354	3,943	258	20,085
Loans receivable:								
Balance of loans individually evaluated for impairment	529	1,995	—	79	16,685	13,321	182	32,791
Balance of loans acquired with deteriorated credit quality	—	348	—	1,701	636	—	64	2,749
Balance of loans collectively evaluated for impairment	202,675	361,964	59,570	18,348	879,056	297,510	17,349	1,836,472
Total period-end balance	$ 203,204	$364,307	$ 59,570	$ 20,128	$ 896,377	$ 310,831	$ 17,595	$1,872,012

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

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 premiums or discounts), the Company recognizes impairment through an allowance estimate or a charge-off to the allowance.

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

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

	As of and for the year ended December 31, 2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Construction and development	$ 366	$ 375	$ —	$ 300	$ 15
1-4 Family	1,005	1,082	—	821	17
Farmland	62	70	—	68	—
Commercial real estate	5,746	21,016	—	10,515	28
Total mortgage loans on real estate	7,179	22,543	—	11,704	60
Commercial and industrial	1,996	2,530	—	6,868	70
Consumer	34	45	—	56	—
Total	9,209	25,118	—	18,628	130
With related allowance recorded:					
Construction and development	225	498	26	225	—
1-4 Family	474	484	46	205	—
Commercial real estate	190	190	36	32	—
Total mortgage loans on real estate	889	1,172	108	462	—
Commercial and industrial	245	292	112	421	—
Consumer	96	123	63	96	—
Total	1,230	1,587	283	979	—
Total loans:					
Construction and development	591	873	26	525	15
1-4 Family	1,479	1,566	46	1,026	17
Farmland	62	70	—	68	—
Commercial real estate	5,936	21,206	36	10,547	28
Total mortgage loans on real estate	8,068	23,715	108	12,166	60
Commercial and industrial	2,241	2,822	112	7,289	70
Consumer	130	168	63	152	—
Total	$ 10,439	$ 26,705	$ 283	$ 19,607	$ 130

	As of and for the year ended December 31, 2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Construction and development	$ 529	$ 812	$ —	$ 731	$ 17
1-4 Family	1,995	2,081	—	1,965	30
Farmland	79	81	—	193	—
Commercial real estate	16,685	27,139	—	10,790	181
Total mortgage loans on real estate	19,288	30,113	—	13,679	228
Commercial and industrial	9,395	10,941	—	9,166	152
Consumer	55	69	—	96	—
Total	28,738	41,123	—	22,941	380
With related allowance recorded:					
Commercial and industrial	3,926	9,618	468	1,311	24
Consumer	127	164	96	146	—
Total	4,053	9,782	564	1,457	24
Total loans:					
Construction and development	529	812	—	731	17
1-4 Family	1,995	2,081	—	1,965	30
Farmland	79	81	—	193	—
Commercial real estate	16,685	27,139	—	10,790	181
Total mortgage loans on real estate	19,288	30,113	—	13,679	228
Commercial and industrial	13,321	20,559	468	10,477	176
Consumer	182	233	96	242	—
Total	$ 32,791	$ 50,905	$ 564	$ 24,398	$ 404

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

Troubled Debt Restructurings

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

Loans classified as TDRs consisted of 20 credits, totaling approximately $3.0 million at December 31, 2022, compared to 29 credits, totaling approximately $10.5 million at December 31, 2021. Twelve restructured loans were considered TDRs due to modification of terms through adjustments to maturity, four restructured loans were considered TDRs due to a reduction in the interest rate to a rate lower than the current market rate, three restructured loans were considered TDRs due to principal payment forbearance paying interest only for a specified period of time, and one restructured loan was considered a TDR due to principal and interest payment forbearance. At December 31, 2022 and 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.

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

The table below presents the TDR pre- and post-modification outstanding recorded investments by loan category for loans modified during the years ended December 31, 2022 and 2021 (amounts in thousands, except number of loans).

	December 31, 2022			December 31, 2021		
Troubled debt restructurings	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial real estate	1	$ 186	$ 186	1	$ 28	$ 28
Commercial and industrial	2	58	58	3	586	586
		$ 244	$ 244		$ 614	$ 614

There were no loans modified under troubled debt restructurings during the previous twelve month period that subsequently defaulted during the year ended December 31, 2022.

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

	TDRs			
	Accruing	**Nonaccrual**	**Total**	**Related Allowance**
December 31, 2022				
Construction and development	$ 219	$ —	$ 219	$ —
1-4 Family	271	127	398	—
Commercial real estate	413	804	1,217	—
Commercial and industrial	58	1,092	1,150	—
Total	$ 961	$ 2,023	$ 2,984	$ —
December 31, 2021				
Construction and development	$ 242	$ —	$ 242	$ —
1-4 Family	585	145	730	—
Commercial real estate	2,775	915	3,690	—
Commercial and industrial	1,976	3,885	5,861	—
Total	$ 5,578	$ 4,945	$ 10,523	$ —

The table below includes the average recorded investment and interest income recognized for TDRs for the years ended December 31, 2022, 2021 and 2020. The average recorded investment is calculated based on the month-end balances of the loans during the period reported (dollars in thousands).

	TDRs	
	Average Recorded Investment	**Interest Income Recognized**
December 31, 2022		
Construction and development	$ 230	$ 15
1-4 Family	489	16
Commercial real estate	1,249	28
Commercial and industrial	3,511	70
Total	$ 5,479	$ 129
December 31, 2021		
Construction and development	$ 251	$ 17
1-4 Family	775	28
Commercial real estate	5,358	174
Commercial and industrial	6,698	149
Total	$ 13,082	$ 368
December 31, 2020		
Construction and development	$ 438	$ 14
1-4 Family	936	35
Commercial real estate	2,778	126
Commercial and industrial	1,075	53
Total	$ 5,227	$ 228

NOTE 5. OTHER REAL ESTATE OWNED

The table below shows the activity in other real estate owned for the years ended December 31, 2022 and 2021 (dollars in thousands).

	Year ended December 31, 2022	Year ended December 31, 2021
Balance, beginning of period	$ 2,653	$ 663
Additions	3,327	1,023
Transfers from bank premises and equipment	525	1,850
Sales of other real estate owned	(5,823)	(883)
Balance, end of period	$ 682	$ 2,653

For the years ended December 31, 2022 and 2021, additions to other real estate owned of $1.7 million and $0.1 million, respectively, were related to acquired loans. In 2022, the Company closed two branches, and the land and building associated with one of the closed branches were transferred from bank premises and equipment to other real estate owned, as the Company did not intend to use the properties for banking operations; the property was sold later in the year. In 2021, the Company closed two branches and the associated land and buildings were transferred from bank premises and equipment to other real estate owned; these properties were sold in 2022. At December 31, 2022 and 2021, approximately $0.6 million and $1.3 million, respectively, of loans secured by 1-4 family residential property were in the process of foreclosure.

NOTE 6. BANK PREMISES AND EQUIPMENT

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

	December 31, 2022	December 31, 2021
Land	$ 11,490	$ 15,319
Buildings and improvements	40,799	41,962
Furniture and equipment	13,569	13,792
Software	2,334	2,319
Construction-in-progress	575	483
Right-of-use asset	2,845	3,354
Less: Accumulated depreciation and amortization	(22,025)	(19,149)
Bank premises and equipment, net	$ 49,587	$ 58,080

Depreciation and amortization related to bank premises and equipment charged to noninterest expense was approximately $3.5 million, $4.0 million and $3.6 million for the years ended December 31, 2022, 2021 and 2020, respectively.

During the year ended December 31, 2022, the Bank closed two branch locations and sold three tracts of land being held for future branch locations. One of the branch locations, totaling $0.5 million, was reclassified from "Bank premises and equipment, net" to "Other real estate owned, net" in the accompanying consolidated balance sheets. During the year ended December 31, 2022, the Bank recognized a loss of $0.3 million included in "Loss on sale or disposition of fixed assets, net" in the accompanying consolidated statements of income. During the year ended December 31, 2021, the Bank closed two branch locations and reclassified the related land and buildings, totaling $1.9 million, from "Bank premises and equipment, net" to "Other real estate owned, net" in the accompanying consolidated balance sheets, at which point the Bank recognized a $0.4 million loss included in "Loss on sale or disposition of fixed assets, net" in the accompanying consolidated statements of income.

NOTE 7. LEASES

The Company's primary leasing activities relate to certain real estate leases entered into in support of the Company's branch operations. The Company'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 accompanying consolidated balance sheets. Operating lease ROU assets represent the right to use an underlying asset for the lease term and operating lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease pre-payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease. When it is reasonably certain that the Company will exercise an option to extend a lease, the extension is included in the lease term when calculating the present value of lease payments.

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

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

	December 31,	
	2022	**2021**
Total operating lease cost	$ 610	$ 610
Weighted average remaining lease term (in years)	7.0	7.8
Weighted average discount rate	2.9%	2.8%

At December 31, 2022, the Company's operating lease ROU assets and related liabilities were $2.8 million and $2.9 million, respectively, and have remaining terms ranging from 1 to 9 years, including extension options if the Company is reasonably certain they will be exercised.

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

2023	$ 595
2024	515
2025	476
2026	339
2027	341
Thereafter	1,012
Total	$ 3,278

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

On May 29, 2020, the Bank purchased the first floor of its corporate headquarters building, which is currently occupied by multiple tenants. The Bank assumed the existing leases, all of which are operating leases. The Bank, as lessor, recognized rental income of $0.3 million for both the years ended December 31, 2022 and 2021.

NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company's intangible assets consist of goodwill, core deposit intangible assets arising from acquisitions, and a trademark intangible. At December 31, 2022 and 2021, goodwill and other intangible assets, net totaled $43.1 million and $44.0 million, respectively, and included no accumulated impairment losses.

Additions and adjustments to goodwill were recorded during the year ended December 31, 2021 as a result of the acquisition discussed in Note 2. Business Combinations. The carrying amount of goodwill at December 31, 2022 and 2021 was $40.1 million. The trademark intangible had a carrying value of $0.1 million at December 31, 2022 and 2021.

In accordance with ASC Topic 350, *Intangibles – Goodwill and Other*, the Company reviews the carrying value of indefinite-lived intangible assets at least annually, or more frequently if certain impairment indicators exist. The Company performed its annual impairment testing on October 31, 2022 and determined that there was no impairment to its goodwill or trademark intangible asset.

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

	December 31,	
Core deposit intangibles	**2022**	**2021**
Gross carrying amount	$ 7,486	$ 7,486
Accumulated amortization	(4,527)	(3,638)
Net carrying amount	$ 2,959	$ 3,848

Amortization expense for the core deposit intangible assets recorded in "Depreciation and amortization" in the accompanying consolidated statements of income totaled approximately $0.9 million, $1.0 million, and $1.0 million for the years ended December 31, 2022, 2021 and 2020, respectively.

The future amortization schedule for the Company's core deposit intangible assets is displayed in the table below (dollars in thousands). The weighted average amortization period remaining for core deposit intangibles is 6.4 years.

2023	761
2024	643
2025	528
2026	411
2027	288
Thereafter	328
	$ 2,959

NOTE 9. DEPOSITS

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

	December 31,	
	2022	**2021**
Noninterest-bearing demand deposits	$ 580,741	$ 585,465
Interest-bearing demand deposits	565,598	650,868
Money market deposit accounts	208,596	255,501
Savings accounts	155,176	180,837
Time deposits	572,254	447,595
Total deposits	$ 2,082,365	$ 2,120,266

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

	December 31,	
	2022	**2021**
$0 to $99,999	$ 150,041	$ 151,963
$100,000 to $249,999	266,456	203,922
$250,000 and above	155,757	91,710
	$ 572,254	$ 447,595

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

	December 31,	
	2022	2021
Time remaining until maturity:		
Three months or less	$ 147,477	$ 71,728
Over three months through six months	43,695	52,784
Over six months through twelve months	176,874	97,370
Over one year through three years	49,278	63,453
Over three years	4,889	10,297
	$ 422,213	$ 295,632

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

2023	$ 485,317
2024	68,052
2025	10,364
2026	5,293
2027	3,228
	$ 572,254

Public fund deposits as of December 31, 2022 and 2021 totaled approximately $167.5 million and $117.8 million, respectively. The funds were secured by securities with a fair value of approximately $165.5 million and $107.2 million as of December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, total deposits outstanding to executive officers, principal shareholders, directors and to companies in which they are principal owners amounted to approximately $29.9 million and $49.4 million, respectively.

NOTE 10. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

Repurchase agreements mature on a daily basis. At December 31, 2022, the Company had no repurchase agreements. At December 31, 2021, the total balance of repurchase agreements was $5.8 million, and were secured by investment securities with a fair value of approximately $11.0 million. The interest rate paid for repurchase agreements is tiered, based on balance, and is indexed to the federal funds rate. The weighted average interest rate on repurchase agreements was 0.15% at December 31, 2021. The weighted average rate paid for repurchase agreements during the years ended December 31, 2022, 2021 and 2020 was 0.15%, 0.21% and 0.30%, respectively.

NOTE 11. SUBORDINATED DEBT SECURITIES

On April 6, 2022, the Company entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors and qualified institutional buyers (the "Purchasers") under which the Company issued $20.0 million in aggregate principal amount of its 5.125% Fixed-to-Floating Rate Subordinated Notes due 2032 (the "2032 Notes") to the Purchasers at a price equal to 100% of the aggregate principal amount of the 2032 Notes. The 2032 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 2032 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 2032 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 2032 Notes, the interest rate on the 2032 Notes during the applicable floating rate period may be determined based on a rate other than three-month term SOFR. The 2032 Notes may be redeemed, 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 we made 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 2032 Notes are subject to acceleration only in limited circumstances in the case of certain bankruptcy and insolvency-related events. The 2032 Notes are the unsecured, subordinated obligations of the Company and rank junior in right of payment to our current and future senior indebtedness and to our obligations to our general creditors. The 2032 Notes are intended to qualify as Tier 2 capital for regulatory purposes.

The Company used the majority of the net proceeds to redeem its 6.00% Fixed-to-Floating Rate Subordinated Notes due 2027 (the "2027 Notes") in June 2022 and utilized the remaining proceeds for share repurchases and for general corporate purposes.

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

On March 24, 2017, the Company issued and sold $18.6 million in aggregate principal amount of its 2027 Notes due March 30, 2027. Beginning on March 30, 2022, the Company could redeem the 2027 Notes, in whole or in part, at their principal amount plus any accrued and unpaid interest. The 2027 Notes had an interest rate of 6.00% per annum until March 30, 2022, on which date the interest rate reset quarterly to an annual interest rate equal to the then-current LIBOR plus 394.5 basis points. In June 2022, the Company redeemed the 2027 Notes in full in accordance with their terms at a redemption price equal to 100% of the outstanding principal balance plus accrued and unpaid interest up to but excluding the June 30, 2022 redemption date ("Redemption Date"). The aggregate redemption price, excluding accrued interest, totaled $18.6 million. Interest on the 2027 Notes no longer accrued on or after the Redemption Date.

The carrying value of subordinated debt was $44.2 million and $43.0 million at December 31, 2022 and 2021, respectively. The subordinated debt securities were recorded net of issuance costs of $0.8 million and $0.6 million at December 31, 2022 and 2021, respectively, which are being amortized using the straight-line method over the lives of the respective securities.

NOTE 12. OTHER BORROWED FUNDS

Federal Home Loan Bank Advances

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

	Amount		Weighted Average Rate	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Fixed rate advances maturing:				
2023	$ 333,500	$ —	4.55%	—%
2024	23,500	23,500	1.81	1.81
2028	—	25,000	—	1.77
2033	30,000	30,000	1.88	1.88
	$ 387,000	$ 78,500	4.18%	1.82%

As of December 31, 2022, these advances are collateralized by approximately $930.1 million of the Company's loan portfolio and $0.6 million of the Company's investment securities in accordance with the Advance Security and Collateral Agreement with the FHLB. As of December 31, 2022, the Company had an additional $533.1 million available under its line of credit with the FHLB.

At December 31, 2022 and 2021, the FHLB advances contractually maturing in 2033 are fixed rate, nonamortizing puttable advances. Under the terms of these advances, the Bank sells the FHLB options to terminate the fixed rate advances at specified points in time prior to the stated maturity dates. The FHLB may terminate the advances on quarterly option exercise dates until maturity. At December 31, 2021, the FHLB advances contractually maturing in 2028 were fixed rate, nonamortizing puttable advances. Under the terms of these advances, the Bank sells the FHLB options to terminate the fixed rate advances at specified points in time prior to the stated maturity dates. These advances were terminated during the year ended December 31, 2022.

Lines of Credit

The Company has outstanding unsecured lines of credit with its correspondent banks available to assist in the management of short-term liquidity. Any balances drawn on these lines of credit mature daily. At December 31, 2022 and 2021, the available balance on the unsecured lines of credit totaled approximately $60.0 million, with no outstanding balance reflected on the consolidated balance sheets.

Junior Subordinated Debt

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

	Face Value	Carrying Value	Maturity Date	Variable Interest Rate	Interest Rate at December 31, 2022
First Community Louisiana Statutory Trust I	$ 3,609	$ 3,609	June 2036	3-month LIBOR + 1.77%	6.54%
BOJ Bancshares Statutory Trust I	3,093	2,450	December 2034	3-month LIBOR + 1.90%	6.67%
Cheaha Statutory Trust I	3,093	2,456	September 2035	3-month LIBOR + 1.70%	6.47%
	$ 9,795	$ 8,515			

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

As part of the purchase accounting adjustments made with the BOJ Bancshares Inc. acquisition on December 1, 2017, and with the Cheaha Financial Group, Inc. acquisition on April 1, 2021, the Company adjusted the carrying value of the junior subordinated debentures to fair value as of the respective acquisition date. The discounts on the debentures will continue to be amortized through maturity and recognized as a component of interest expense.

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

The debentures are included on the consolidated balance sheets as liabilities; however, for regulatory purposes, the carrying values of these obligations are eligible for inclusion in Tier I regulatory capital, subject to certain limitations. The total carrying values of $8.5 million and $8.4 million were allowed in the calculation of Tier I regulatory capital at December 31, 2022 and 2021, respectively.

NOTE 13. DERIVATIVE FINANCIAL INSTRUMENTS

As part of its liability management, the Company has utilized 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. At December 31, 2022 the Company had no current or forward starting interest rate swap agreements. At 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 $115.0 million, all of which were designated as cash flow hedges. The interest rate swaps were determined to be fully effective during the periods presented, and therefore no amount of ineffectiveness has been included in net income. The derivative contracts were between the Company and two counterparties. To mitigate credit risk, securities were pledged to the Company by the counterparties in an amount greater than or equal to the gain position of the derivative contracts. Conversely, securities were pledged to the counterparties by the Company in an amount greater than or equal to the loss position of the derivative contracts, if applicable.

During the year ended December 31, 2022, the Company voluntarily terminated its remaining interest rate swap agreements with a total notional amount of $115.0 million in response to market conditions. During the year ended December 31, 2021, the Company voluntarily terminated interest rate swap agreements with a total notional amount of $150.0 million in response to market conditions and as a result of excess liquidity. For years ended December 31, 2022, and December 31, 2021, unrealized gains of $6.4 million and $1.4 million, respectively, net of tax expenses of $1.7 million and $0.4 million, respectively, were reclassified from "Accumulated other comprehensive (loss) income" and recorded as "Swap termination fee income" in noninterest income in the accompanying consolidated statements of income.

For the year ended December 31, 2022, a gain of $4.3 million, net of tax expense of $1.2 million, was recognized in "Other comprehensive loss" in the accompanying consolidated statements of comprehensive (loss) income for the change in fair value of the interest rate swap contracts. For the years ended December 31, 2021 and December 31, 2020, a gain of $5.3 million, net of a $1.4 million tax expense, and a loss of $2.3 million net of a $0.6 million tax benefit, respectively, was recognized in "Other comprehensive loss" in the accompanying consolidated statements of comprehensive (loss) income for the change in fair value of the interest rate swap contracts.

There were no assets or liabilities recorded in the accompanying consolidated balance sheet at December 31, 2022 associated with the swap contracts. 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.

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 during the years ended December 31, 2022, 2021 and 2020.

NOTE 14. STOCKHOLDERS' EQUITY

Preferred Stock

The Company's Articles of Incorporation give the Company's board of directors the authority to issue up to 5,000,000 shares of preferred stock. At December 31, 2022, there were no preferred shares outstanding. The preferred shares are considered "blank check" preferred stock. This type of preferred stock allows the board of directors to fix the designations, preferences and relative, participating, optional or other special rights, and qualifications and limitations or restrictions of any series of preferred stock without further shareholder approval.

Common Stock

The Company's Articles of Incorporation give the Company's board of directors the authority to issue up to 40,000,000 shares of common stock. At December 31, 2022, there were 9,901,847 common shares outstanding compared to 10,343,494 and 10,608,869 at December 31, 2021 and 2020, respectively.

In addition, the Company repurchased 518,978, 359,138, and 661,504 shares of its common stock through its stock repurchase program at an average price of $20.27, $19.24, and $16.75 per share during the years ended December 31, 2022, 2021 and 2020, respectively.

Dividend Restrictions. In the ordinary course of business, the Company is dependent upon dividends from the Bank to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid to the Company. Approval by regulatory authorities is required if the effect of the dividend would cause the regulatory capital of the Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years. Further, a national bank may not pay a dividend in excess of its undivided profits.

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

Under the terms of the Company's 5.125% Fixed-to-Floating Rate Subordinated Notes due 2029, the Company may not pay a dividend if either the parent company or the Bank, both immediately prior to the declaration of the dividend and after giving effect to the payment of the dividend, would not maintain regulatory capital ratios that are at "well capitalized" levels for regulatory purposes (but with respect to the parent company, only if it is required to measure and report such ratios on a consolidated basis under applicable law). The Company is also prohibited from paying dividends upon and during the continuance of any Event of Default under such notes.

Under the terms of the Company's 5.125% Fixed-to-Floating Rate Subordinated Notes due 2032, the Company is prohibited from paying dividends upon and during the continuance of any Event of Default under such notes.

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

Accumulated Other Comprehensive Income (Loss)

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

	For the years ended December 31,								
	2022			2021			2020		
	Beginning of Period	Net Change	End of Period	Beginning of Period	Net Change	End of Period	Beginning of Period	Net Change	End of Period
Unrealized gain (loss), available for sale, net	$ 4,882	$(48,019)	$ (43,137)	$ 7,493	$ (2,611)	$ 4,882	$ 3,476	$ 4,017	$ 7,493
Reclassification of realized gain, available for sale, net	(5,772)	(5)	(5,777)	(3,939)	(1,833)	(5,772)	(2,131)	(1,808)	(3,939)
Unrealized gain (loss), transfer from available for sale to held to maturity, net	2	(1)	1	3	(1)	2	4	(1)	3
Change in fair value of interest rate swaps designated as cash flow hedges, net	3,501	4,329	7,830	(1,752)	5,253	3,501	542	(2,294)	(1,752)
Reclassification of realized gain, interest rate swap termination, net	(1,450)	(6,380)	(7,830)	—	(1,450)	(1,450)	—	—	—
Accumulated other comprehensive income (loss)	$ 1,163	$(50,076)	$ (48,913)	$ 1,805	$ (642)	$ 1,163	$ 1,891	$ (86)	$ 1,805

NOTE 15. STOCK-BASED COMPENSATION

Equity Incentive Plan. The Company's Amended and Restated 2017 Long-Term Incentive Compensation Plan (the "Plan") authorizes the grant of various types of equity awards, such as restricted stock, restricted stock units, stock options and stock appreciation rights to eligible participants, which include all of the Company's employees, non-employee directors, and consultants. The Plan has reserved a total of 1,200,000 shares of common stock, 600,000 of which were authorized in 2021, for issuance to eligible participants pursuant to equity awards under the Plan. The Plan is administered by the Compensation Committee of the Company's board of directors, which determines, within the provisions of the Plan, those eligible employees to whom, and the times at which, equity awards will be granted. The Compensation Committee, in its discretion, may delegate its authority and duties under the Plan to specified officers; however, only the Compensation Committee may approve the terms of equity awards to the Company's executive officers and directors. At December 31, 2022, approximately 627,958 shares remain available for grant.

Stock Options

During the years ended December 31, 2022, 2021 and 2020, the Company granted 34,379, 38,450, and 58,993 stock options, respectively, to key personnel that vest in one-fifth increments on each of the first five anniversaries of the grant date.

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

	Shares	Weighted Average Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 31, 2019	**357,214**	**$ 16.96**	**5.93**
Granted	58,993	16.96	
Forfeited	(4,585)	21.36	
Exercised	(3,334)	14.00	
Outstanding at December 31, 2020	**408,288**	**17.66**	**5.57**
Granted	38,450	20.72	
Forfeited	(30,869)	19.56	
Exercised	(47,388)	15.44	
Outstanding at December 31, 2021	**368,481**	**18.10**	**5.05**
Granted	34,379	18.92	
Forfeited	(42,930)	21.36	
Exercised	(9,500)	14.00	
Outstanding at December 31, 2022	**350,430**	**17.89**	**4.19**
Exercisable at December 31, 2022	280,550	$ 17.14	3.38

The aggregate intrinsic value of stock options is calculated as the aggregate difference between the exercise price of the stock options and the fair market value of the Company's common stock for those stock options having an exercise price lower than the fair market value of the Company's common stock. At December 31, 2022, the shares underlying outstanding and exercisable stock options had intrinsic values of $1.4 million and $1.3 million, respectively.

The Company uses a Black-Scholes option pricing model to estimate the fair value of stock-based awards. The Black-Scholes option pricing model incorporates various subjective assumptions, including expected term and expected volatility. Expected volatility was determined based on the historical volatilities of the Company. Stock option expense of $0.2 million is included in "Salaries and employee benefits" in the accompanying consolidated statements of income for the years ended December 31, 2022, 2021 and 2020. At December 31, 2022, there was $0.3 million of unrecognized compensation cost related to stock options that is expected to be recognized over a weighted average period of 3.1 years.

The table below shows the assumptions used for the stock options granted during the years ended December 31, 2022 and 2021.

	2022	2021
Dividend yield	1.70%	1.35%
Expected volatility	38.74%	39.23%
Risk-free interest rate	2.50%	1.25%
Expected term (in years)	6.5	6.5
Weighted average grant date fair value	$ 6.69	$ 7.23

Restricted Stock and Restricted Stock Units

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

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

The Company granted a total of 134,524 RSUs to employees and directors for the year ended December 31, 2022. Of the RSUs granted in 2022, 114,554 shares will vest over five years and 19,970 shares will vest over two years.

The Company granted a total of 129,082 RSUs to employees and directors for the year ended December 31, 2021. Of the RSUs granted in 2021, 105,294 shares will vest over five years and 23,788 shares will vest over two years.

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

Compensation expense related to restricted stock and RSUs included in the accompanying consolidated statements of income for the years ended December 31, 2022, 2021 and 2020 was $2.0 million, $1.6 million and $1.4 million, respectively. The unearned compensation related to these awards is amortized to compensation expense over the vesting period. As of December 31, 2022, unearned stock-based compensation cost associated with these awards totaled approximately $3.7 million and is expected to be recognized over a weighted average period of 3.3 years.

The following table summarizes the restricted stock and RSU activity for the years ended December 31, 2022 and December 31, 2021.

	December 31,			
	2022		2021	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Balance, beginning of period	241,070	$ 21.16	207,146	$ 22.23
Granted	134,524	19.09	129,082	19.91
Forfeited	(30,169)	20.34	(29,642)	21.79
Earned and issued	(91,937)	21.14	(65,516)	21.64
Balance, end of period	253,488	$ 20.19	241,070	$ 21.16

NOTE 16. EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) defined contribution plan (the “401(k) Plan”), which covers employees over the age of twenty-one who have completed three months of credited service, as defined by the 401(k) Plan. The 401(k) Plan allows employees to defer a percentage of their salaries subject to certain limits based on federal tax laws. The Company makes matching contributions up to 4% of the employee’s annual salary (subject to certain maximum compensation amounts as prescribed in Internal Revenue Service guidance). Contributions by the Company and participants are immediately vested. Employer matching contributions to the 401(k) Plan for the years ended December 31, 2022, 2021 and 2020 were approximately $1.0 million, $1.0 million and $0.9 million, respectively, and are included in “Salaries and employee benefits” in the accompanying consolidated statements of income.

The 401(k) Plan also allows for discretionary Company contributions in the form of cash or Company stock. Contributions in the form of Company stock are held in a portion of the 401(k) Plan that qualifies as an employee stock ownership plan. The Company made Company stock contributions of $0.1 million and $0.2 million in the years ended December 31, 2022 and December 31, 2020, respectively. The discretionary components vest in increments of 20% annually over a period of five years based on the employees’ years of service, beginning upon completion of two years of service (such that an employee with six years of service will be 100% vested).

The Bank has entered into Salary Continuation Agreements (“SCA”) with certain officers of the Company. The SCAs represent unfunded, non-qualified deferred compensation arrangements under the Internal Revenue Code of 1986, as amended. The SCAs between the Bank and each officer, as supplemented if applicable, provide that the officer shall receive annual payments of a fixed amount upon attaining the age of 65, with such payments payable monthly over a period of 120 months (10 years). Each officer is also entitled to certain reduced payments following a termination of employment prior to attaining age 65 (other than a termination due to death or with cause), which payments shall be made on the same schedule mentioned above.

The Company maintained a deferred compensation plan for a former employee of First Community Bank, a bank acquired by the Company in 2013. A single premium immediate annuity policy was purchased of which the former employee is the beneficiary. Under this policy, the beneficiary received monthly payments of $2,000 through 2020. The Company also maintains a deferred compensation plan for a former employee of Citizens Bank ("Citizens"), a liability assumed in the Citizens acquisition in 2017. Under the deferred compensation agreement, the former employee will receive monthly payments of $2,000 through May of 2030. The Company also maintains a deferred compensation plan for certain former employees of Cheaha, and associated liabilities of $1.7 million were assumed in the acquisition on April 1, 2021. The deferred compensation plan provides for payments for a period of 15 years following specified retirement dates, which range from 2018 through 2032. On November 3, 2022, the Company's then-current Chief Financial Officer notified the Company of his intent to separate from all positions at the Company and the Bank, to be effective November 4, 2022. On November 4, 2022, the Company entered into a separation and release agreement with him. The Company's board of directors approved the continuation of his Split-Dollar Life Insurance Agreement following his separation date. Accordingly, in the fourth quarter of 2022, the Company recorded deferred compensation expense and associated liability of $0.2 million. At December 31, 2022 and 2021, the Company had a liability of $5.2 million and $4.3 million, respectively, included in "Accrued taxes and other liabilities" on the accompanying consolidated balance sheets related to these deferred compensation plans. Deferred compensation expenses related to these plans recognized for the years ended December 31, 2022, 2021, and 2020 were approximately $1.0 million, $0.7 million and $0.4 million, respectively, and are included in "Salaries and employee benefits" in the accompanying consolidated statements of income.

NOTE 17. INCOME TAXES

The income tax expense included in the consolidated statements of income is displayed in the table below for the years ended December 31, 2022, 2021 and 2020 (dollars in thousands).

	December 31,		
	2022	2021	2020
Current federal income tax expense	$ 9,075	$ 2,315	$ 4,805
Current state income tax expense	219	141	33
Deferred federal income tax expense	(655)	(547)	(1,388)
Total income tax expense	$ 8,639	$ 1,909	$ 3,450

The provision for federal income taxes differs from that computed by applying the federal statutory rate of 21% as indicated in the following analysis for the years ended December 31, 2022, 2021 and 2020 (dollars in thousands).

	December 31,		
	2022	2021	2020
Tax based on statutory rate	$ 9,313	$ 2,081	$ 3,641
(Decrease) increase resulting from:			
Effect of tax-exempt income	(873)	(348)	(299)
Acquisition costs	—	72	—
Historical tax credits	—	(54)	29
State taxes	219	141	33
Other	(20)	17	46
Total income tax expense	$ 8,639	$ 1,909	$ 3,450
Effective rate	19.5%	19.3%	19.9%

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

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

	December 31,	
	2022	2021
Deferred tax liabilities:		
Depreciation	$ (3,441)	$ (4,024)
FHLB stock dividend	(103)	(71)
Unrealized gain on available for sale securities	—	(309)
Basis difference in acquired assets and liabilities	(1,129)	(1,233)
Operating lease right-of-use asset	(598)	(704)
Other	(46)	(167)
Gross deferred tax liability	(5,317)	(6,508)
Deferred tax assets:		
Allowance for loan losses	5,180	4,502
Unrealized loss on available for sale securities	13,235	—
Net operating loss carryforward	193	316
Deferred compensation	1,099	903
Basis difference in acquired assets and liabilities	440	709
Employee and director stock awards	576	553
Operating lease liability	619	725
Unearned loan fees	269	379
Employee Retention Credit	—	498
Other	144	162
Gross deferred tax asset	21,755	8,747
Net deferred tax asset	$ 16,438	$ 2,239

The Company acquired net operating loss ("NOL") carryforwards through tax free acquisitions. As of December 31, 2022 and December 31, 2021, the Company's gross NOL carryforwards were approximately $0.9 million and $1.5 million, respectively. As of December 31, 2022, $0.1 million and $0.8 million of the NOL carryforwards expire in 2033 and 2039, respectively. All available NOL carryforwards are expected to be fully utilized by 2024, therefore the Company did not record a valuation allowance against the NOL carryforwards for the year ended December 31, 2022.

The Company files income tax returns under U.S. federal jurisdiction and the states of Alabama, Florida, Texas and Louisiana, although the state of Louisiana does not assess an income tax on income resulting from banking operations. The Company is open to examination in the U.S. and the states of Louisiana, Alabama, and Florida for tax years ended December 31, 2019 through December 31, 2022; and Texas for tax years ended December 31, 2018 through December 31, 2022.

NOTE 18. 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.

The Company also holds Small Business Investment Company qualified funds and other investment funds that do not have a readily determinable fair value. In accordance with ASC 820, these investments are measured at fair value using the net asset value practical expedient and are not required to be classified in the fair value hierarchy. At December 31, 2022 and December 31, 2021, the fair values of these investments were $2.8 million and $1.8 million, respectively, and are included in “Other assets” in the accompanying consolidated balance sheets.

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.

Fair Value Hierarchy

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 are 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 the U.S. Treasury and U.S. government agencies and corporations, obligations of state and political subdivisions, corporate bonds, residential mortgage-backed securities, commercial mortgage-backed securities, and other equity securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, the Company classifies those securities in level 3.

Based on market reference data, which may include reported trades; bids, offers or broker/dealer quotes; benchmark yields and spreads; as well as other reference data, management monitors the current placement of securities in the fair value hierarchy to determine whether transfers between levels may be warranted. At December 31, 2022, 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 loans, excluding loans held for sale, 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 flows analyses based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. The fair value of the Company's long-term debt is therefore classified in level 3 of the fair value hierarchy.

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

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

Fair Value of Assets and Liabilities Measured on a Recurring Basis

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022				
Assets:				
Obligations of the U.S Treasury and U.S. government agencies and corporations	$ 29,805	$ —	$ 29,805	$ —
Obligations of state and political subdivisions	18,378	—	12,413	5,965
Corporate bonds	29,942	—	29,463	479
Residential mortgage-backed securities	251,851	—	251,851	—
Commercial mortgage-backed securities	75,191	—	75,191	—
Equity securities	1,245	1,245	—	—
Total assets	$ 406,412	$ 1,245	$ 398,723	$ 6,444
December 31, 2021				
Assets:				
Obligations of the U.S Treasury and 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	$ 359,918	$ 1,810	$ 335,506	$ 22,602

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

The Company reviews fair value hierarchy classifications on a quarterly basis. Changes in the Company's ability to observe inputs to the valuation may cause reclassification of certain assets or liabilities within the fair value hierarchy. In the third quarter of 2021, the Company transferred approximately $0.5 million of corporate bonds from level 2 to level 3 based on insufficient market reference data. The table below provides a reconciliation for assets measured at fair value on a recurring basis using significant unobservable inputs, or level 3 inputs (dollars in thousands).

	Obligations of State and Political Subdivisions	Corporate Bonds	Total
Balance at December 31, 2020	$ 18,516	$ —	$ 18,516
Realized gains (losses) included in net income	—	—	—
Unrealized losses included in other comprehensive loss	(1,014)	(4)	(1,018)
Purchases	5,000	—	5,000
Sales	—	—	—
Maturities, prepayments, and calls	(388)	—	(388)
Transfers into Level 3	—	492	492
Transfers out of Level 3	—	—	—
Balance at December 31, 2021	$ 22,114	$ 488	$ 22,602
Realized gains (losses) included in net income	—	—	—
Unrealized losses included in other comprehensive loss	(1,474)	(9)	(1,483)
Purchases	—	—	—
Sales	—	—	—
Maturities, prepayments, and calls	(4,840)	—	(4,840)
Transfers into Level 3	—	—	—
Transfers out of Level 3	(9,835)	—	(9,835)
Balance at December 31, 2022	$ 5,965	$ 479	$ 6,444

There were no liabilities measured at fair value on a recurring basis using level 3 inputs at December 31, 2022 and 2021. For the years ended December 31, 2022, 2021 and 2020, there were no gains or losses included in earnings related to the change in fair value of the assets measured on a recurring basis using significant unobservable inputs held at the end of the period.

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

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Discounts
December 31, 2022				
Obligations of state and political subdivisions	$ 5,965	Option-adjusted discounted cash flow model; present value of expected future cash flow model	Bond appraisal adjustment(1)	0% - 12%
Corporate bonds	479	Option-adjusted discounted cash flow model; present value of expected future cash flow model	Bond appraisal adjustment(1)	4%
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 Measured on a Nonrecurring Basis

Quantitative information about assets measured at fair value on a nonrecurring basis based on significant unobservable inputs (level 3) are summarized below as of the dates indicated; there were no liabilities measured on a nonrecurring basis at December 31, 2022 or 2021 (dollars in thousands).

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Discounts	Weighted Average Discount
December 31, 2022					
Impaired loans	$ 4,033	Discounted cash flows, underlying collateral value	Collateral discounts and estimated costs to sell	4% - 100%	53%
December 31, 2021					
Impaired loans	$ 12,703	Discounted cash flows, underlying collateral value	Collateral discounts and estimated costs to sell	10% - 100%	60%

The estimated fair values of the Company's financial instruments at December 31, 2022 and December 31, 2021 are shown below (dollars in thousands).

	December 31, 2022				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 40,066	$ 40,066	$ 40,066	$ —	$ —
Federal funds sold	193	193	193	—	—
Investment securities	413,472	413,089	—	401,233	11,856
Equity securities	27,254	27,254	1,245	26,009	—
Loans, net of allowance	2,080,403	1,997,287	—	—	1,997,287
Financial liabilities:					
Deposits, noninterest-bearing	$ 580,741	$ 580,741	$ —	$ 580,741	$ —
Deposits, interest-bearing	1,501,624	1,314,407	—	—	1,314,407
FHLB short-term advances	333,500	333,500	—	333,500	—
FHLB long-term advances	53,500	52,147	—	—	52,147
Junior subordinated debt	8,515	8,515	—	—	8,515
Subordinated debt	45,000	42,980	—	42,980	—

	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	—

NOTE 19. REGULATORY MATTERS

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

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

As of December 31, 2022 and 2021, the Bank was considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum risk-based and Tier 1 leverage capital ratios as set forth in the table below and not be subject to a written agreement or order with regulators to maintain a specific capital level for any capital measure. There are no conditions or events since the regulatory framework for prompt corrective action was issued that management believes have changed the Bank’s category.

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2022 and December 31, 2021 are presented in the tables below (dollars in thousands).

	Actual		Capital Adequacy*		Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022						
Tier 1 leverage capital						
Investar Holding Corporation	$ 231,048	8.53%	$ 108,405	4.00%	NA	NA
Investar Bank	267,603	9.89	108,275	4.00	$ 135,344	5.00%
Common Equity Tier 1 risk-based capital						
Investar Holding Corporation	221,548	9.79	158,457	7.00	NA	NA
Investar Bank	267,603	11.83	158,355	7.00	147,044	6.50
Tier 1 risk-based capital						
Investar Holding Corporation	231,048	10.21	192,412	8.50	NA	NA
Investar Bank	267,603	11.83	192,288	8.50	180,977	8.00
Total risk-based capital						
Investar Holding Corporation	300,009	13.25	237,685	10.50	NA	NA
Investar Bank	292,339	12.92	237,532	10.50	226,221	10.00
December 31, 2021						
Tier 1 leverage capital						
Investar Holding Corporation	$ 206,899	8.12%	$ 101,983	4.00%	NA	NA
Investar Bank	244,541	9.60	101,851	4.00	$ 127,313	5.00%
Common Equity Tier 1 risk-based capital						
Investar Holding Corporation	197,399	9.45	146,291	7.00	NA	NA
Investar Bank	244,541	11.72	146,086	7.00	135,651	6.50
Tier 1 risk-based capital						
Investar Holding Corporation	206,899	9.90	177,639	8.50	NA	NA
Investar Bank	244,541	11.72	177,390	8.50	166,956	8.00
Total risk-based capital						
Investar Holding Corporation	271,416	12.99	219,436	10.50	NA	NA
Investar Bank	266,069	12.75	219,129	10.50	208,694	10.00

*The minimum ratios and amounts under the column for Capital Adequacy for December 31, 2022 and December 31, 2021 reflect the minimum regulatory capital ratios imposed under Basel III plus the fully phased-in capital conservation buffer of 2.5%.

Applicable Federal statutes, regulations, and guidance impose restrictions on the amounts of dividends that may be declared by the Company and the Bank. In addition to the formal statutes, regulations, and guidance, regulatory authorities also consider the adequacy of the Company's and the Bank's total capital in relation to its assets, deposits, risk profile, and other such items and, as a result, capital adequacy considerations could further limit the availability of dividends from the Company and the Bank. The Company is also subject to dividend restrictions under the terms of its 2029 Notes, 2032 Notes, and junior subordinated debentures. See "*Common Stock – Dividend Restrictions*" in Note 14. Stockholders' Equity, for more information.

NOTE 20. COMMITMENTS AND CONTINGENCIES

Unfunded Commitments

The Company is a party to financial instruments with off-balance sheet risk entered into in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit consisting of loan commitments and standby letters of credit, which are not included in the accompanying financial statements. Such financial instruments are recorded in the financial statements when they become payable. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses. At December 31, 2022 and 2021, the reserve for unfunded loan commitments was $0.4 million and $0.7 million, respectively, and is included in “Accrued taxes and other liabilities” in the accompanying 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. Substantially all standby letters of credit issued have expiration dates within one year.

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

	December 31, 2022	December 31, 2021
Loan commitments	$ 333,040	$ 349,701
Standby letters of credit	11,379	18,259

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

Insurance

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

Employment Agreements

On August 1, 2020, the Company entered into an employment agreement with its Chief Executive Officer. The agreement provides that the executive shall receive a minimum annual base salary $510,000, shall be eligible for annual incentive compensation up to a certain percentage of the base salary, subject to the discretion and approval of the Company’s board of directors, and shall be entitled to the payment of severance benefits upon termination under specified circumstances. The initial term of the employment agreement expires on August 1, 2023 and will automatically renew for successive one-year periods unless written notice of non-renewal is given by either party to the other at least ninety (90) days prior to the expiration of the then-current term.

On August 1, 2020, the Company entered into an employment agreement with its then-current Chief Financial Officer. The agreement provided that the executive would receive a minimum annual base salary $285,000, be eligible for annual incentive compensation up to a certain percentage of the base salary, subject to the discretion and approval of the Company’s board of directors, and would be entitled to the payment of severance benefits upon termination under specified circumstances. On November 3, 2022, the Chief Financial Officer notified the Company of his intent to separate from all positions at the Company and the Bank, effective November 4, 2022. On November 4, 2022, the Company entered into a separation and release agreement with him, which provides that he will receive compensation and benefits due in connection with a termination due to “Disability” under the employment agreement and releases the Company from any and all claims arising on or before November 4, 2022.

Legal Proceedings

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

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

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

NOTE 21. TRANSACTIONS WITH RELATED PARTIES

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

During 2022 and 2021, certain executive officers and directors of the Company and the Bank, including companies with which they are affiliated and other related persons, were deposit customers of the Bank. See Note 9. Deposits, regarding total deposits outstanding to these related parties.

The Company has participated in transactions with related parties for which the Company believes the terms and conditions are comparable to terms that would have been available from a third party that was unaffiliated with the Company. The following describes transactions since January 1, 2020, in addition to the ordinary banking relationships described above, in which the Company has participated in which one or more of its directors, executive officers, their affiliated companies, or other related persons had or will have a direct or indirect material interest.

On May 29, 2020, the Bank purchased the first floor of its corporate headquarters, located at 10500 Coursey Blvd. in Baton Rouge, Louisiana, from Court Plaza Investments, LLC, a former related party entity that is controlled by one of the Company’s former directors, who resigned from the Company's board of directors during 2022. Following the purchases of the second and third floors in previous years, the first floor was purchased for $1.8 million and gave the Bank complete ownership of the building, branded as the Investar Tower. The purchase price approximated the appraised value as determined by an independent appraiser.

The Company has engaged in a number of transactions with Joffrion Commercial Division, LLC (“JCD”), a commercial construction company owned and managed by Gordon H. Joffrion, one of the Company’s directors. For each transaction, the Company selected JCD through its public bidding process. The Company did not make any payments to JCD during the year ended December 31, 2022. The Company paid JCD approximately $0.1 million and $0.9 million during the years ended December 31, 2021 and December 31, 2020, respectively.

NOTE 22. PARENT COMPANY ONLY FINANCIAL STATEMENTS

BALANCE SHEETS

(dollars in thousands)	December 31, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 6,153	$ 3,193
Equity securities	823	1,333
Due from bank subsidiary	937	968
Investment in bank subsidiary	261,737	289,640
Investment in trust	295	295
Trademark intangible	100	100
Other assets	518	299
Total assets	$ 270,563	$ 295,828
LIABILITIES		
Subordinated debt, net of unamortized issuance costs	$ 44,225	$ 42,989
Junior subordinated debt	8,515	8,384
Accounts payable	253	87
Accrued interest payable	567	609
Dividend payable	941	829
Deferred tax liability	280	332
Total liabilities	54,781	53,230
STOCKHOLDERS' EQUITY		
Common stock	9,902	10,343
Surplus	146,587	154,932
Retained earnings	108,206	76,160
Accumulated other comprehensive (loss) income	(48,913)	1,163
Total stockholders' equity	215,782	242,598
Total liabilities and stockholders' equity	$ 270,563	$ 295,828

STATEMENTS OF INCOME

(dollars in thousands)	For the years ended December 31, 2022	For the years ended December 31, 2021
REVENUE		
Dividends received from bank subsidiary	$ 17,000	$ 35,000
Dividends on corporate stock	19	29
Change in the fair value of equity securities	(35)	228
Interest income from investment in trust	11	5
Total revenue	16,995	35,262
EXPENSE		
Interest on borrowings	3,137	2,777
Management fees to bank subsidiary	360	360
Loss on early extinguishment of subordinated debt	222	—
Acquisition expense	—	22
Other expense	666	411
Total expense	4,385	3,570
Income before income taxes and equity in undistributed income (loss) of bank subsidiary	12,610	31,692
Equity in undistributed income (loss) of bank subsidiary	22,172	(24,440)
Income tax benefit	927	748
Net income	$ 35,709	$ 8,000

STATEMENTS OF CASH FLOWS

(dollars in thousands)	For the years ended December 31, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 35,709	$ 8,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of bank subsidiary	(22,172)	24,440
Change in the fair value of equity securities	35	(228)
Amortization of subordinated debt issuance costs and purchase accounting adjustments	197	200
Loss on early extinguishment of subordinated debt	222	—
Net change in:		
Due from bank subsidiary	31	(59)
Other assets	5	18
Deferred tax asset	(52)	180
Accrued other liabilities	1,746	1,341
Net cash provided by operating activities	15,721	33,892
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equity securities	(750)	(500)
Proceeds from the sale of equity securities	1,225	574
Purchases of other investments	(225)	(233)
Cash paid for acquisition of Cheaha Financial Group, net of cash acquired	—	(40,935)
Net cash provided by (used in) investing activities	250	(41,094)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid on common stock	(3,552)	(3,090)
Payments to repurchase common stock	(10,540)	(6,925)
Proceeds from stock options exercised	133	732
Proceeds from subordinated debt, net of issuance costs	19,548	—
Extinguishment of subordinated debt	(18,600)	—
Net cash used in financing activities	(13,011)	(9,283)
Net increase (decrease) in cash	2,960	(16,485)
Cash and cash equivalents, beginning of period	3,193	19,678
Cash and cash equivalents, end of period	$ 6,153	$ 3,193
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for:		
Interest on borrowings	$ 3,179	$ 2,774

NOTE 23. EARNINGS PER SHARE

The following is a summary of the information used in the computation of basic and diluted earnings per common share for the years ended December 31, 2022, 2021 and 2020 (in thousands, except share data).

	December 31, 2022	December 31, 2021	December 31, 2020
Earnings per common share - basic			
Net income	$ 35,709	$ 8,000	$ 13,889
Less: income allocated to participating securities	(33)	(21)	(73)
Net income allocated to common shareholders	35,676	7,979	13,816
Weighted average basic shares outstanding	10,085,758	10,416,145	10,850,936
Basic earnings per common share	$ 3.54	$ 0.77	$ 1.27
Earnings per common share - diluted			
Net income allocated to common shareholders	$ 35,676	$ 7,979	$ 13,816
Weighted average basic shares outstanding	10,085,758	10,416,145	10,850,936
Dilutive effect of securities	94,951	84,157	14,911
Total weighted average diluted shares outstanding	10,180,709	10,500,302	10,865,847
Diluted earnings per common share	$ 3.50	$ 0.76	$ 1.27

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

	December 31, 2022	December 31, 2021	December 31, 2020
Stock options	15,361	869	71
Restricted stock awards	135	431	10,968
Restricted stock units	15,176	20,828	62,754

NOTE 24. SUBSEQUENT EVENTS

On January 27, 2023, the Bank completed its previously announced sale of certain assets, deposits and other liabilities associated with the Alice and Victoria, Texas locations to First Community Bank, a Texas state bank located in Corpus Christi, Texas. The Bank sold $13.9 million in loans and $14.5 million in deposits. Upon completion of the sale, the Bank recorded a $0.8 million loss on sale or disposal of fixed assets, $0.3 million of occupancy expense to terminate the leases for the branch facilities, and $0.3 million of other miscellaneous expenses.

Management has evaluated all subsequent events and transactions that occurred after December 31, 2022 up through the date that the financial statements were available to be issued and determined that there were no additional events that require disclosure. No events or changes in circumstances were identified that would have an adverse impact on the financial statements.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, the Company carried out an evaluation under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer (the Company's principal executive and financial officers), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective for ensuring that information the Company is required to disclose in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes to internal control over financial reporting during the fourth quarter of 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

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

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Except as provided below, the information required by Item 10 is incorporated by reference to the Company's Definitive Proxy Statement for its 2023 Annual Meeting of Shareholders (the "2023 Proxy Statement").

Code of Conduct and Ethics

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

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference to the 2023 Proxy Statement.

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

Stock Ownership

Except as provided below, the information required by Item 12 is incorporated by reference to the 2023 Proxy Statement.

Securities Authorized for Issuance under Equity Compensation Plans

The following table presents certain information regarding our equity compensation plans as of December 31, 2022.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights[3]	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders[1]	382,385	$ 21.98	627,958
Equity compensation plans not approved by security holders[2]	215,011	15.32	—
Total	597,396	$ 17.89	627,958

(1) Represents shares available for issuance under the Company's Amended and Restated 2017 Long-Term Incentive Compensation Plan (the "Plan"). The Plan authorizes the grant of various types of equity grants and awards, such as restricted stock, stock options and stock appreciation rights to eligible participants, which include all of the Company's employees, non-employee directors, and consultants.

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

(3) Includes 246,966 shares issuable pursuant to outstanding restricted stock units, which do not have an exercise price.

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

The information required by Item 13 is incorporated by reference to the 2023 Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 is incorporated by reference to the 2023 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents Filed as Part of this Report.

(1) The following financial statements are incorporated by reference from *Item 8. Financial Statements and Supplementary Data* hereof:

Report of Independent Registered Public Accounting Firms (PCAOB ID: 171)
Consolidated Balance Sheets as of December 31, 2022 and 2021
Consolidated Statements of Income for the Years Ended December 31, 2022, 2021 and 2020
Consolidated Statements of Comprehensive (Loss) Income for the Years Ended December 31, 2022, 2021 and 2020
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2022, 2021 and 2020
Consolidated Statements of Cash Flows for the Years Ended December 31, 2022, 2021 and 2020
Notes to Consolidated Financial Statements

(2) All schedules for which provision is made in the applicable accounting regulations of the SEC are omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements and related notes thereto.

(3) The following exhibits are filed as part of this Form 10-K, and this list includes the Exhibit Index.

Exhibit Number	Description	Location
2.1	Agreement and Plan of Reorganization dated January 21, 2021 by and among Investar Holding Corporation, Cheaha Financial Group, Inc. and High Point Acquisition, Inc.	Exhibit 2.1 to the Current Report on Form 8-K of the Company filed January 25, 2021 and incorporated herein by reference
3.1	Restated Articles of Incorporation of Investar Holding Corporation	Exhibit 3.1 to the Registration Statement on Form S-1 of the Company filed May 16, 2014 and incorporated herein by reference
3.2	Amended and Restated By-laws of Investar Holding Corporation	Exhibit 3.2 to the Registration Statement on Form S-4 of the Company filed October 10, 2017 and incorporated herein by reference
4.1	Specimen Common Stock Certificate	Exhibit 4.1 to the Registration Statement on Form S-1 of the Company filed May 16, 2014 and incorporated herein by reference
4.2	Description of Registrant's Securities Registered under Section 12 of the Securities Exchange Act of 1934	Exhibit 4.2 to the Annual Report on Form 10-K of the Company filed March 9, 2022 and incorporated herein by reference

4.3	Form of 5.125% Fixed to Floating Rate Subordinated Note due 2029	Exhibit 4.1 to the Current Report on Form 8-K filed November 14, 2019 and incorporated herein by reference
4.4	Indenture, dated April 6, 2022, by and among Investar Holding Corporation and UMB Bank, National Association, as trustee	Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on April 7, 2022 and incorporated herein by reference.
4.5	Form of 5.125% Fixed-to-Floating Rate Subordinated Note due 2032	Exhibit 4.2 to the Current Report on Form 8-K filed with the SEC on April 7, 2022 and incorporated herein by reference
4.6	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	Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on April 7, 2022 and incorporated herein by reference
4.7	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	Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on April 7, 2022 and incorporated herein by reference
10.1	Form of the Director Support Agreement, dated October 10, 2018, among Investar Holding Corporation, Mainland Bank and all of the directors of Mainland Bank parties thereto	Exhibit 10.3 to the Registration Statement on Form S-4 of the Company filed November 30, 2018 and incorporated herein by reference
10.2*	Employment Agreement, dated August 1, 2020 by and among Investar Holding Corporation, Investar Bank, National Association, and John J. D'Angelo	Exhibit 10.1 to the Current Report on Form 8-K filed August 6, 2020 and incorporated herein by reference
10.3*	Employment Agreement, dated August 1, 2020 by and among Investar Holding Corporation, Investar Bank, National Association, and Christopher L. Hufft	Exhibit 10.2 to the Current Report on Form 8-K filed August 6, 2020 and incorporated herein by reference
10.4*	Amended and Restated Investar Holding Corporation 2017 Long-Term Incentive Compensation Plan	Exhibit 10.1 to the Current Report on Form 8-K filed May 20, 2021 and incorporated herein by reference
10.5*	Salary Continuation Agreement, dated as of February 28, 2018, by and between Investar Bank and John D’Angelo	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed March 1, 2018 and incorporated herein by reference
10.6*	Supplemental Salary Continuation Agreement, dated May 22, 2019, by and between Investar Bank and John D’Angelo	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed May 23, 2019 and incorporated herein by reference
10.7*	Salary Continuation Agreement, dated as of February 28, 2018, by and between Investar Bank and Christopher Hufft	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed March 1, 2018 and incorporated herein by reference
10.8*	Supplemental Salary Continuation Agreement, dated May 22, 2019, by and between Investar Bank and Christopher Hufft	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed May 23, 2019 and incorporated herein by reference
10.9*	Resignation Agreement with Travis Lavergne, dated July 9, 2021	Exhibit 10.1 to the Quarterly Report on Form 10-Q filed May 4, 2022 and incorporated herein by reference

10.10*	Separation Agreement & Release with Christopher Hufft, dated November 4, 2022	Filed herewith
10.11*	Form of Split Dollar Agreement by and between Investar Bank and each executive entering into a Salary Continuation Agreement	Exhibit 10.4 to the Current Report on Form 8-K of the Company filed March 1, 2018 and incorporated herein by reference
10.12*	Form of First Amendment to Split Dollar Agreement by and between Investar Bank and each executive entering into a Supplemental Salary Continuation Agreement	Exhibit 10.3 to the Current Report on Form 8-K filed May 23, 2019 and incorporated herein by reference
10.13*	Amendment to the Split Dollar Agreement between Investar Bank and Christopher Hufft, dated November 1, 2022	Filed herewith
10.14*	Investar Holding Corporation 2014 Long-Term Incentive Compensation Plan, as amended by Amendment No. 1 to Investar Holding Corporation 2014 Long Term Incentive Plan	Exhibit 10.1 to the Registration Statement on Form S-1 of the Company filed May 16, 2014 and, as to Amendment No.1, Exhibit 99.2 to the Registration Statement on Form S-8 of the Company filed October 30, 2014, each of which is incorporated herein by reference
10.15*	Form of Stock Option Grant Agreement	Exhibit 10.2 to the Registration Statement on Form S-1 of the Company filed May 16, 2014 and incorporated herein by reference
10.16*	Form of Restricted Stock Award Agreement for Employees	Exhibit 10.3 to the Annual Report on Form 10-K of the Company filed March 11, 2016 and incorporated herein by reference
10.17*	Form of Restricted Stock Award Agreement for Non-Employee Directors	Exhibit 10.4 to the Annual Report on Form 10-K of the Company filed March 11, 2016 and incorporated herein by reference
10.18*	Form of Restricted Stock Unit Agreement for Employees	Exhibit 10.15 to the Annual Report on Form 10-K of the Company filed March 15, 2019 and incorporated herein by reference
10.19*	Form of Restricted Stock Unit Agreement for Non-Employee Directors	Exhibit 10.16 to the Annual Report on Form 10-K of the Company filed March 15, 2019 and incorporated herein by reference
10.20*	Investar Holding Corporation 401(k) Plan, as restated effective January 1, 2021	Exhibit 10.20 to the Annual Report on Form 10-K of the Company filed March 10, 2021 and incorporated herein by reference
21	Subsidiaries of the Registrant	Exhibit 21 to the Registration Statement on Form S-1 of the Company filed May 16, 2014 and incorporated herein by reference
23.1	Consent of Horne LLP	Filed herewith
31.1	Rule 13a-14(a) Certification of Principal Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith

31.2	Rule 13a-14(a) Certification of Principal Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Section 1350 Certification of Principal Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Section 1350 Certification of Principal Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
104	Cover Page Interactive Data File (embedded within the Inline XBRL Document and include in Exhibit 101)	Filed herewith

* Management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INVESTAR HOLDING CORPORATION

Date:	March 8, 2023	by:	/s/John J. D'Angelo John J. D'Angelo President and Chief Executive Officer

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

Date:	March 8, 2023	by:	/s/John J. D'Angelo John J. D'Angelo President, Chief Executive Officer and Director (Principal Executive Officer)
Date:	March 8, 2023	by:	/s/John R. Campbell John R. Campbell Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	March 8, 2023	by:	/s/Corey E. Moore Corey E. Moore Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)
Date:	March 8, 2023	by:	/s/James H. Boyce, III James H. Boyce, III Director

Date:	March 8, 2023	by:	/s/William H. Hidalgo, Sr. William H. Hidalgo, Sr. Chairman of the Board
Date:	March 8, 2023	by:	/s/Rose J. Hudson Rose J. Hudson Director
Date:	March 8, 2023	by:	/s/Gordon H. Joffrion, III Gordon H. Joffrion, III Director
Date:	March 8, 2023	by:	/s/Robert C. Jordan Robert C. Jordan Director
Date:	March 8, 2023	by:	/s/David J. Lukinovich David J. Lukinovich Director
Date:	March 8, 2023	by:	/s/Suzanne O. Middleton Suzanne O. Middleton Director
Date:	March 8, 2023	by:	/s/Andrew C. Nelson, M.D. Andrew C. Nelson, M.D. Director
Date:	March 8, 2023	by:	/s/Frank L. Walker Frank L. Walker Director

INVESTAR®
HOLDING CORPORATION

Investar Holding Corporation
10500 Coursey Boulevard
Baton Rouge, Louisiana 70816
(225) 227-2222
www.investarbank.com