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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2019

or

☐ **TRANSITION REPORT PURUSANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number: 333-200112

BUSINESS FIRST BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Louisiana **(State or other jurisdiction of incorporation or organization)**	**20-5340628** **(I.R.S. Employer Identification Number)**
500 Laurel Street, Suite 101 **Baton Rouge, Louisiana** **(Address of principal executive offices)**	**70801** **(Zip Code)**

(225) 248-7600
(Registrant's telephone number, including area code)

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 a check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

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

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, par value $1.00 per share	BFST	NASDAQ Global Select Market

As of August 2, 2019, the issuer has outstanding 13,366,482 shares of common stock, par value $1.00 per share.

BUSINESS FIRST BANCSHARES, INC.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	June 30, 2019 (Unaudited)	December 31, 2018
ASSETS		
Cash and Due from Banks	$ 64,043	$ 96,072
Federal Funds Sold	20,809	41,836
Securities Available for Sale, at Fair Values	294,981	309,516
Mortgage Loans Held for Sale	443	58
Loans and Lease Receivable, Net of Allowance for Loan Losses of $11,603 at June 30, 2019 and $11,220 at December 31, 2018	1,630,970	1,517,249
Premises and Equipment, Net	27,577	15,114
Accrued Interest Receivable	7,957	8,223
Other Equity Securities	11,717	9,282
Other Real Estate Owned	2,324	1,909
Cash Value of Life Insurance	32,223	31,882
Deferred Taxes	2,527	3,848
Goodwill	48,503	49,488
Core Deposit Intangible	7,139	7,885
Other Assets	2,395	2,534
Total Assets	$ 2,153,608	$ 2,094,896
LIABILITIES		
Deposits:		
Noninterest Bearing	$ 394,848	$ 382,354
Interest Bearing	1,308,054	1,351,580
Total Deposits	1,702,902	1,733,934
Securities Sold Under Agreements to Repurchase	16,096	12,229
Subordinated Debt	25,000	25,000
Federal Home Loan Bank Borrowings	108,000	55,000
Accrued Interest Payable	1,924	1,374
Other Liabilities	22,217	7,301
Total Liabilities	1,876,139	1,834,838
Commitments and Contingencies (See Note 7)		
SHAREHOLDERS' EQUITY		
Preferred Stock, No Par Value; 5,000,000 Shares Authorized	-	-
Common Stock, $1 Par Value; 50,000,000 Shares Authorized; 13,361,482 and 13,213,280 Shares Issued and Outstanding at June 30, 2019 and December 31, 2018, respectively	13,361	13,213
Additional Paid-in Capital	213,823	212,332
Retained Earnings	48,087	37,982
Accumulated Other Comprehensive Income (Loss)	2,198	(3,469)
Total Shareholders' Equity	277,469	260,058
Total Liabilities and Shareholders' Equity	$ 2,153,608	$ 2,094,896

The accompanying notes are an integral part of these financial statements.

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

	For The Three Months Ended June 30, 2019	For The Three Months Ended June 30, 2018	For The Six Months Ended June 30, 2019	For The Six Months Ended June 30, 2018
Interest Income:				
Interest and Fees on Loans	$ 23,870	$ 16,549	$ 46,293	$ 32,225
Interest and Dividends on Securities	1,829	1,414	3,703	2,837
Interest on Federal Funds Sold and Due From Banks	197	128	487	255
Total Interest Income	25,896	18,091	50,483	35,317
Interest Expense:				
Interest on Deposits	5,038	2,555	9,795	4,853
Interest on Borrowings	665	560	1,375	988
Total Interest Expense	5,703	3,115	11,170	5,841
Net Interest Income	20,193	14,976	39,313	29,476
Provision for Loan Losses	1,302	474	1,935	948
Net Interest Income after Provision for Loan Losses	18,891	14,502	37,378	28,528
Other Income:				
Service Charges on Deposit Accounts	1,034	636	1,972	1,246
Gain (Loss) on Sales of Securities	58	-	58	-
Other Income	3,127	1,370	4,500	2,495
Total Other Income	4,219	2,006	6,530	3,741
Other Expenses:				
Salaries and Employee Benefits	8,756	6,524	17,308	13,228
Occupancy and Equipment Expense	1,884	1,402	3,778	2,820
Other Expenses	3,937	4,099	7,281	7,921
Total Other Expenses	14,577	12,025	28,367	23,969
Income Before Income Taxes	8,533	4,483	15,541	8,300
Provision for Income Taxes	1,690	845	3,039	1,554
Net Income	$ 6,843	$ 3,638	$ 12,502	$ 6,746
Earnings Per Share:				
Basic	$ 0.51	$ 0.34	$ 0.94	$ 0.65
Diluted	$ 0.50	$ 0.33	$ 0.91	$ 0.62

The accompanying notes are an integral part of these financial statements.

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2019	2018	2019	2018
Consolidated Net Income	$ 6,843	$ 3,638	$ 12,502	$ 6,746
Other Comprehensive Income (Loss):				
Unrealized Gain (Loss) on Investment Securities	3,142	(247)	7,115	(3,717)
Reclassification Adjustment for Gains (Loss) included in Net Income	58	-	58	-
Income Tax Effect	(672)	52	(1,506)	781
Other Comprehensive Income (Loss)	2,528	(195)	5,667	(2,936)
Consolidated Comprehensive Income (Loss)	$ 9,371	$ 3,443	$ 18,169	$ 3,810

The accompanying notes are an integral part of these financial statements.

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(Dollars in thousands, except per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances at December 31, 2017	$ 10,232	$ 144,172	$ 27,175	$ (1,644)	$ 179,935
Comprehensive Income:					
Net Income	-	-	6,746	-	6,746
Other Comprehensive Income (Loss)	-	-	-	(2,936)	(2,936)
Cash Dividends Declared, $0.14 Per Share	-	-	(1,435)	-	(1,435)
Stock Issuance	1,257	26,527	-	-	27,784
Stock Based Compensation Cost	48	569	-	-	617
Surrendered Shares of Stock Based Compensation	(4)	(75)	(3)	-	(82)
Balances at June 30, 2018	$ 11,533	$ 171,193	$ 32,483	$ (4,580)	$ 210,629
Balances at December 31, 2018	$ 13,213	$ 212,332	$ 37,982	$ (3,469)	$ 260,058
Comprehensive Income:					
Net Income	-	-	12,502	-	12,502
Other Comprehensive Income (Loss)	-	-	-	5,667	5,667
Cash Dividends Declared, $0.18 Per Share	-	-	(2,397)	-	(2,397)
Stock Issuance	114	1,154	-	-	1,268
Stock Based Compensation Cost	44	535	-	-	579
Surrendered Shares of Stock Based Compensation	(10)	(198)	-	-	(208)
Balances at June 30, 2019	$ 13,361	$ 213,823	$ 48,087	$ 2,198	$ 277,469

The accompanying notes are an integral part of these financial statements.

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For The Six Months Ended June 30, 2019	2018
Cash Flows From Operating Activities:		
Consolidated Net Income	$ 12,502	$ 6,746
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Provision for Loan Losses	1,935	948
Depreciation and Amortization	801	566
Net Accretion of Purchase Accounting Valuations	(957)	(464)
Noncash Compensation Expense	371	535
Net Amortization of Securities	854	1,085
Gain on Sales of Securities	(58)	-
Noncash (Income) Loss on Other Equity Securities	(1,338)	(258)
(Gain) Loss on Sale of Other Real Estate Owned, Net of Writedowns	51	(28)
Increase in Cash Value of Life Insurance	(341)	(334)
Credit for Deferred Income Taxes	(185)	(146)
Gain on Sale of Branch	(593)	-
Changes in Assets and Liabilities:		
(Increase) Decrease in Accrued Interest Receivable	266	(3)
Decrease in Other Assets	65	1,144
Increase in Accrued Interest Payable	550	77
Increase (Decrease) in Other Liabilities	1,735	(303)
Net Cash Provided by Operating Activities	15,658	9,565
Cash Flows From Investing Activities:		
Purchases of Securities Available for Sale	(14,662)	(2,015)
Proceeds from Maturities / Sales of Securities Available for Sale	17,822	7,704
Proceeds from Paydowns of Securities Available for Sale	17,752	16,385
Net Cash Paid in Merger	-	(49,796)
Net Cash Paid in Sale of Branch	(17,436)	-
Purchases of Other Equity Securities	(2,109)	(818)
Redemption of Other Equity Securities	1,012	196
Net Increase in Loans	(120,570)	(65,154)
Purchases of Premises and Equipment	(966)	(694)
Proceeds from Sales of Other Real Estate	610	123
Net (Increase) Decrease in Federal Funds Sold	21,027	(14,202)
Net Cash Used in Investing Activities	(97,520)	(108,271)

(CONTINUED)

	For The Six Months Ended June 30, 2019	2018
Cash Flows From Financing Activities:		
Net Increase (Decrease) in Deposits	(5,905)	10,009
Net Increase (Decrease) in Securities Sold Under Agreements to Repurchase	3,867	(4,382)
Net Advances on Federal Home Loan Bank Borrowings	53,000	5,000
Proceeds from Issuance of Common Stock	392	27,784
Proceeds from Exercise of Stock Warrants	876	-
Payment of Dividends on Common Stock	(2,397)	(1,435)
Net Cash Provided by Financing Activities	49,833	36,976
Net Increase (Decrease) in Cash and Cash Equivalents	(32,029)	(61,730)
Cash and Cash Equivalents at Beginning of Period	96,072	107,591
Cash and Cash Equivalents at End of Period	$ 64,043	$ 45,861
Supplemental Disclosures for Cash Flow Information:		
Cash Payments for:		
Interest on Deposits	$ 9,604	$ 4,571
Interest on Borrowings	$ 1,016	$ 963
Income Tax Payments	$ 2,200	$ 1,240
Supplemental Schedule for Noncash Investing and Financing Activities:		
Change in the Unrealized Gain (Loss) on Securities Available for Sale	$ 7,173	$ (3,717)
Change in Deferred Tax Effect on the Unrealized (Gain) Loss on Securities Available for Sale	$ (1,506)	$ 781
Transfer of Loans to Other Real Estate	$ 1,105	$ 92
Transfer of Premises and Equipment to Other Real Estate	$ -	$ 1,049

The accompanying notes are an integral part of these financial statements.

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation –

The unaudited consolidated financial statements include the accounts of Business First Bancshares, Inc. (the “Company”) and its wholly-owned subsidiary, Business First Bank (the “Bank”), and the Bank’s wholly-owned subsidiary, Business First Insurance, LLC. The Bank operates out of branch locations in markets across Louisiana and Texas. As a state bank, it is subject to regulation by the Office of Financial Institutions, State of Louisiana, and the Federal Deposit Insurance Corporation, and undergoes periodic examinations by these agencies. The Company is also regulated by the Federal Reserve and is subject to periodic examinations.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial results for the periods presented, and all such adjustments are of a normal recurring nature. All material intercompany transactions are eliminated. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire year.

These interim consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission and, therefore, certain information and footnote disclosures normally presented in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) have been omitted or abbreviated. These interim financial statements should be read in conjunction with the audited consolidated financial statements and footnote disclosures for the Company’s previously filed Form 10-K for the year ended December 31, 2018.

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Estimates are used in accounting for, among other items, the allowance for loan losses, useful lives for depreciation and amortization, fair value of financial instruments, deferred taxes, and contingencies. Estimates that are particularly susceptible to significant change for the Company include the determination of the allowance for loan losses and the assessment of deferred tax assets and liabilities and, therefore, are critical accounting policies. Management does not anticipate any material changes to estimates in the near term. Factors that may cause sensitivity to the aforementioned estimates include but are not limited to: external market factors such as market interest rates and employment rates, changes to operating policies and procedures, economic conditions in our markets, and changes in applicable banking regulations. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual reporting period presented.

Note 2 – Reclassifications –

Certain reclassifications may have been made to conform to the classifications adopted for reporting in 2019. These reclassifications have no effect on previously reported net income.

Note 3 – Mergers and Acquisitions –

On January 1, 2018, the Company completed the acquisition of Minden Bancorp, Inc. (MBI), and its wholly-owned subsidiary, MBL Bank, located in Minden, Louisiana, further increasing its presence in the Northwest Louisiana region. The Company paid an aggregate cash consideration equal to $56.2 million, or approximately $23.20 in exchange for each share of MBI common stock outstanding immediately prior to the effective time of the acquisition. At December 31, 2017, MBI had fair values of approximately $317.4 million in total assets, $192.7 million in net loans, $264.0 million in total deposits, and $30.6 million in total shareholders' equity, and was the leading financial institution in Webster Parish, part of the Shreveport-Bossier City MSA, through its two banking center locations.

Cost and Allocation of Purchase Price for Minden Bancorp, Inc. (MBI):
(Dollars in thousands, except per share data)

Purchase Price:			
MBI Shares Outstanding at December 31, 2017	2,407,627		
MBI Restricted Stock Awards Outstanding at December 31, 2017	1,480		
MBI Shares Cashed Out Under Terms of Merger			2,409,107
Exchange Ratio			23.20
Cash Paid to Shareholders for Shares of Common Stock		$	55,891
MBI Stock Options Outstanding at December 31, 2017 17,822 Shares at $31.50 Less Strike Price			
Cash Paid on MBI Options			296
Total Purchase Price		$	56,187
Net Assets Acquired:			
Cash and Cash Equivalents		$	15,891
Securities Available for Sale			99,867
Loans and Leases Receivable			192,714
Premises and Equipment, Net			2,678
Cash Value of Life Insurance			741
Core Deposit Intangible			2,494
Other Assets			3,055
Total Assets			317,440
Deposits			263,951
Borrowings			21,047
Other Liabilities			1,858
Total Liablilities			286,856
Net Assets Acquired			30,584
Goodwill Resulting from Merger		$	25,603

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

After the close of business on November 30, 2018, the Company completed the acquisition of Richland State Bancorp, Inc. (RSBI), and its wholly-owned subsidiary, Richland State Bank, located in Richland, Louisiana. The Company issued 1,679,559 shares of its common stock to the RSBI shareholders for a purchase price of $42.4 million. At November 30, 2018, RSBI had provisional fair values of approximately $316.5 million in total assets, $191.0 million in net loans, $290.0 million in total deposits, and $25.4 million in total shareholders' equity.

Cost and Allocation of Purchase Price for Richland State Bancorp, Inc. (RSBI):
(Dollars in thousands, except per share data)

Purchase Price:		
Shares Issued to RSBI Shareholders on December 1, 2018		1,679,559
Closing Stock Price on November 30, 2018		25.29
Total Purchase Price	$	42,476
Net Assets Acquired:		
Cash and Cash Equivalents	$	40,648
Securities Available for Sale		63,823
Loans and Leases Receivable		190,964
Premises and Equipment, Net		5,282
Cash Value of Life Insurance		7,260
Core Deposit Intangible		3,947
Other Assets		4,498
Total Assets		316,422
Deposits		289,979
Other Liabilities		1,074
Total Liabilities		291,053
Net Assets Acquired		25,369
Goodwill Resulting from Merger	$	17,107

On June 28, 2019, the Company sold a branch that was acquired from Richland State Bank. The sale resulted in a net gain of $593,000 and reduced goodwill and core deposit intangible by $1.3 million.

Note 4 – Earnings per Common Share –

Basic earnings per share (“EPS”) represents income available to common shareholders divided by the weighted average number of common shares outstanding; no dilution for any potentially convertible shares is included in the calculation. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The potential common shares that may be issued by the Company relate to outstanding stock warrants and stock options.

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2019	2018	2019	2018
	(Dollars in thousands, except per share data)			
Numerator:				
Net Income Available to Common Shares	$ 6,843	$ 3,638	$ 12,502	$ 6,746
Denominator:				
Weighted Average Common Shares Outstanding	13,361,482	10,607,369	13,324,725	10,421,185
Dilutive Effect of Stock Options and Warrants	379,455	457,269	379,455	457,269
Weighted Average Dilutive Common Shares	13,740,937	11,064,638	13,704,180	10,878,454
Basic Earnings Per Common Share From Net Income Available to Common Shares	$ 0.51	$ 0.34	$ 0.94	$ 0.65
Diluted Earnings Per Common Share From Net Income Available to Common Shares	$ 0.50	$ 0.33	$ 0.91	$ 0.62

Note 5 – Securities –

The amortized cost and fair values of securities available for sale as of June 30, 2019 and December 31, 2018 are summarized as follows:

	June 30, 2019 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$ 18,364	$ 478	$ -	$ 18,842
Corporate Securities	13,039	103	209	12,933
Mortgage-Backed Securities	158,297	1,946	775	159,468
Municipal Securities	102,499	1,272	33	103,738
Total Securities Available for Sale	$ 292,199	$ 3,799	$ 1,017	$ 294,981

	December 31, 2018 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$ 17,529	$ 54	$ 144	$ 17,439
Corporate Securities	13,052	76	436	12,692
Mortgage-Backed Securities	168,854	328	3,564	165,618
Municipal Securities	114,472	250	955	113,767
Total Securities Available for Sale	$ 313,907	$ 708	$ 5,099	$ 309,516

The following tables present a summary of securities with gross unrealized losses and fair values at June 30, 2019 and December 31, 2018, aggregated by investment category and length of time in a continued unrealized loss position. Due to the nature of these investments and current prevailing market prices, these unrealized losses are considered a temporary impairment of the securities.

	June 30, 2019					
	Less Than 12 Months		12 Months or Greater		Total	
	(Dollars in thousands)					
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government Agencies	$ -	$ -	$ 889	$ -	$ 889	$ -
Corporate Securities	3,941	86	2,377	123	6,318	209
Mortgage-Backed Securities	2,568	3	57,234	772	59,802	775
Municipal Securities	1,598	4	9,434	29	11,032	33
Total Securities Available for Sale	$ 8,107	$ 93	$ 69,934	$ 924	$ 78,041	$ 1,017

	December 31, 2018					
	Less Than 12 Months		12 Months or Greater		Total	
	(Dollars in thousands)					
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government Agencies	$ 4,399	$ 28	$ 4,610	$ 116	$ 9,009	$ 144
Corporate Securities	6,274	260	2,324	176	8,598	436
Mortgage-Backed Securities	67,770	1,264	61,271	2,300	129,041	3,564
Municipal Securities	40,473	484	29,782	471	70,255	955
Total Securities Available for Sale	$ 118,916	$ 2,036	$ 97,987	$ 3,063	$ 216,903	$ 5,099

Management evaluates securities for other than temporary impairment when economic and market conditions warrant such evaluations. Consideration is given to the extent and length of time the fair value has been below cost, the reasons for the decline in value, and the Company’s intent to sell a security or whether it is more likely than not that the Company will be required to sell the security before the recovery of its amortized cost. The Company has developed a process to identify securities that could potentially have a credit impairment that is other than temporary. This process involves evaluating each security for impairment by monitoring credit performance, collateral type, collateral geography, loan-to-value ratios, credit scores, loss severity levels, pricing levels, downgrades by rating agencies, cash flow projections and other factors as indicators of potential credit issues. When the Company determines that a security is deemed to be other than temporarily impaired, an impairment loss is recognized.

The amortized cost and fair values of securities available for sale as of June 30, 2019 by contractual maturity are shown below. Actual maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties.

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Less Than One Year	$ 13,122	$ 13,162
One to Five Years	65,464	66,043
Over Five to Ten Years	132,100	133,450
Over Ten Years	81,513	82,326
Total Securities Available for Sale	$ 292,199	$ 294,981

Note 6 – Loans and the Allowance for Loan Losses –

Loans receivable at June 30, 2019 and December 31, 2018 are summarized as follows:

	June 30, 2019	December 31, 2018
	(Dollars in thousands)	
Real estate loans:		
Construction and land	$ 227,102	$ 211,054
Farmland	47,245	45,989
1-4 family residential	278,610	270,583
Multi-family residential	38,698	39,273
Nonfarm nonresidential	561,149	518,660
Commercial	411,256	363,640
Consumer	78,513	79,270
Total loans held for investment	1,642,573	1,528,469
Less:		
Allowance for loan losses	(11,603)	(11,220)
Net loans	$ 1,630,970	$ 1,517,249

The performing 1-4 family residential, multi-family residential, commercial real estate, and commercial loans are pledged, under a blanket lien, as collateral securing advances from the FHLB at June 30, 2019 and December 31, 2018.

Net deferred loan origination fees were $2.2 million and $1.7 million at June 30, 2019 and December 31, 2018, respectively, and are netted in their respective loan categories above. In addition to loans issued in the normal course of business, the Company considers overdrafts on customer deposit accounts to be loans, and reclassifies overdrafts as loans in its consolidated balance sheets. At June 30, 2019 and December 31, 2018, overdrafts of $292,000 and $858,000, respectively, have been reclassified to loans.

The Bank is the lead lender on participations sold, without recourse, to other financial institutions which amounts are not included in the consolidated balance sheets. The unpaid principal balances of mortgages and other loans serviced for others were approximately $168.9 million and $147.0 million at June 30, 2019 and December 31, 2018, respectively.

The Bank grants loans and extensions of credit to individuals and a variety of businesses and corporations located in its general market areas throughout Louisiana and Texas. Management segregates the loan portfolio into portfolio segments which is defined as the level at which the Bank develops and documents a systematic method for determining its allowance for loan losses. The portfolio segments are segregated based on loan types and the underlying risk factors present in each loan type. Such risk factors are periodically reviewed by management and revised as deemed appropriate.

Loans acquired in business combinations are initially recorded at fair value, which includes an estimate of credit losses expected to be realized over the remaining lives of the loans and, therefore, no corresponding allowance for loan losses is recorded for these loans at acquisition. Methods utilized to estimate any subsequently required allowance for loan losses for acquired loans not deemed credit-impaired at acquisition are similar to originated loans; however, the estimate of loss is based on the unpaid principal balance and then compared to any remaining unaccreted purchase discount. To the extent the calculated loss is greater than the remaining unaccreted discount, an allowance is recorded for such difference.

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Loans acquired in business combinations were recorded at estimated fair value at the acquisition date with no carryover of the related allowance for loan losses.

Total loans held for investment at June 30, 2019 includes $249.5 million of loans acquired in acquisitions that were recorded at fair value as of the acquisition date. Included in the acquired balances at June 30, 2019 were acquired impaired loans accounted for under the Financial Accounting Standard Board's ("FASB") Accounting Standards Codification 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30") with a net carrying amount of $7.8 million and acquired performing loans not accounted for under ASC 310-30 totaling $244.3 million with a related purchase discount of $2.6 million.

Total loans held for investment at December 31, 2018 includes $334.8 million of loans acquired in acquisitions that were recorded at fair value as of the acquisition date. Included in the acquired balances at December 31, 2018 were acquired impaired loans with a net carrying amount of $10.7 million and acquired performing loans totaling $327.3 million with a related purchase discount of $3.2 million.

The following tables set forth, as of June 30, 2019 and December 31, 2018, the balance of the allowance for loan losses by portfolio segment, disaggregated by impairment methodology, which is then further segregated by amounts evaluated for impairment collectively and individually. The allowance for loan losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments.

Allowance for Credit Losses and Recorded Investment in Loans Receivable

	June 30, 2019 (Dollars in thousands)							
	Real Estate: Construction and Land	Real Estate: Farmland	Real Estate: 1-4 Family Residential	Real Estate: Multi-family Residential	Real Estate: Nonfarm Nonresidential	Commercial	Consumer	Total
Allowance for credit losses:								
Beginning Balance	$ 1,590	$ 104	$ 1,538	$ 236	$ 2,715	$ 4,453	$ 584	$ 11,220
Charge-offs	(2)	(2)	(54)	-	(10)	(1,540)	(14)	(1,622)
Recoveries	-	-	9	-	-	33	28	70
Provision	204	90	221	7	706	724	(17)	1,935
Ending Balance	$ 1,792	$ 192	$ 1,714	$ 243	$ 3,411	$ 3,670	$ 581	$ 11,603
Ending Balance:								
Individually evaluated for impairment	$ -	$ 3	$ 19	$ -	$ 11	$ 277	$ 23	$ 333
Collectively evaluated for impairment	$ 1,792	$ 189	$ 1,695	$ 243	$ 3,400	$ 3,393	$ 558	$ 11,270
Purchased Credit Impaired (1)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans receivable:								
Ending Balance	$ 227,102	$ 47,245	$ 278,610	$ 38,698	$ 561,149	$ 411,256	$ 78,513	$ 1,642,573
Ending Balance:								
Individually evaluated for impairment	$ 56	$ 192	$ 2,357	$ -	$ 3,192	$ 3,792	$ 235	$ 9,824
Collectively evaluated for impairment	$ 227,046	$ 46,809	$ 276,160	$ 38,698	$ 550,905	$ 407,036	$ 78,278	$ 1,624,932
Purchased Credit Impaired (1)	$ -	$ 244	$ 93	$ -	$ 7,052	$ 428	$ -	$ 7,817

(1) Purchased credit impaired loans are evaluated for impairment on an individual basis.

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2018 (Dollars in thousands)							
	Real Estate: Construction and Land	Real Estate: Farmland	Real Estate: 1-4 Family Residential	Real Estate: Multi-family Residential	Real Estate: Nonfarm Nonresidential	Commercial	Consumer	Total
Allowance for credit losses:								
Beginning balance	$ 1,421	$ 76	$ 1,284	$ 144	$ 2,323	$ 3,147	$ 370	$ 8,765
Charge-offs	(90)	-	(294)	-	-	-	(88)	(472)
Recoveries	398	-	18	-	13	28	80	537
Provision	(139)	28	530	92	379	1,278	222	2,390
Ending Balance	$ 1,590	$ 104	$ 1,538	$ 236	$ 2,715	$ 4,453	$ 584	$ 11,220
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ 96	$ -	$ 47	$ 1,112	$ 25	$ 1,280
Collectively evaluated for impairment	$ 1,590	$ 104	$ 1,442	$ 236	$ 2,668	$ 3,341	$ 559	$ 9,940
Purchased Credit Impaired (1)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans receivable:								
Ending Balance	$ 211,054	$ 45,989	$ 270,583	$ 39,273	$ 518,660	$ 363,640	$ 79,270	$ 1,528,469
Ending Balance:								
Individually evaluated for impairment	$ 32	$ 112	$ 2,728	$ -	$ 4,155	$ 5,208	$ 125	$ 12,360
Collectively evaluated for impairment	$ 211,022	$ 45,713	$ 267,761	$ 39,273	$ 507,506	$ 354,985	$ 79,145	$ 1,505,405
Purchased Credit Impaired (1)	$ -	$ 164	$ 94	$ -	$ 6,999	$ 3,447	$ -	$ 10,704

(1) Purchased credit impaired loans are evaluated for impairment on an individual basis.

Management further disaggregates the loan portfolio segments into classes of loans, which are based on the initial measurement of the loan, risk characteristics of the loan and the method for monitoring and assessing the credit risk of the loan.

As of June 30, 2019 and December 31, 2018, the credit quality indicators, disaggregated by class of loan, are as follows:

Credit Quality Indicators

	June 30, 2019				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real Estate Loans:					
Construction and land	$ 224,062	$ 1,799	$ 1,185	$ 56	$ 227,102
Farmland	46,227	812	14	192	47,245
1-4 family residential	269,416	3,718	3,136	2,340	278,610
Multi-family residential	38,664	-	34	-	38,698
Nonfarm nonresidential	538,718	12,554	4,676	5,201	561,149
Commercial	396,324	5,921	7,647	1,364	411,256
Consumer	76,882	1,283	113	235	78,513
Total	$ 1,590,293	$ 26,087	$ 16,805	$ 9,388	$ 1,642,573

	December 31, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real Estate Loans:					
Construction and land	$ 209,027	$ 718	$ 1,277	$ 32	$ 211,054
Farmland	45,563	153	161	112	45,989
1-4 family residential	260,325	4,601	2,929	2,728	270,583
Multi-family residential	39,237	-	36	-	39,273
Nonfarm nonresidential	494,698	14,421	3,510	6,031	518,660
Commercial	347,839	5,690	7,448	2,663	363,640
Consumer	77,731	1,180	234	125	79,270
Total	$ 1,474,420	$ 26,763	$ 15,595	$ 11,691	$ 1,528,469

The above classifications follow regulatory guidelines and can generally be described as follows:

- Pass loans are of satisfactory quality.
- Special mention loans have an existing weakness that could cause future impairment, including the deterioration of financial ratios, past due status, questionable management capabilities and possible reduction in the collateral values.
- Substandard loans have an existing specific and well defined weakness that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.
- Doubtful loans have specific weaknesses that are severe enough to make collection or liquidation in full highly questionable and improbable.

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following tables reflect certain information with respect to the loan portfolio delinquencies by loan class and amount as of June 30, 2019 and December 31, 2018. All loans greater than 90 days past due are generally placed on nonaccrual status.

Aged Analysis of Past Due Loans Receivable

	June 30, 2019 (Dollars in thousands)						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment Over 90 Days Past Due and Still Accruing
Real Estate Loans:							
Construction and land	$ 30	$ 18	$ 4	$ 52	$ 227,050	$ 227,102	$ -
Farmland	-	-	107	107	47,138	47,245	107
1-4 family residential	1,137	319	1,011	2,467	276,143	278,610	45
Multi-family residential	-	-	-	-	38,698	38,698	-
Nonfarm nonresidential	407	1,004	3,055	4,466	556,683	561,149	135
Commercial	179	633	1,223	2,035	409,221	411,256	341
Consumer	318	37	210	565	77,948	78,513	99
Total	$ 2,071	$ 2,011	$ 5,610	$ 9,692	$ 1,632,881	$ 1,642,573	$ 727

	December 31, 2018 (Dollars in thousands)						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment Over 90 Days Past Due and Still Accruing
Real Estate Loans:							
Construction and land	$ 325	$ 13	$ 89	$ 427	$ 210,627	$ 211,054	$ 60
Farmland	-	96	-	96	45,893	45,989	-
1-4 family residential	1,596	588	1,400	3,584	266,999	270,583	270
Multi-family residential	36	-	-	36	39,237	39,273	-
Nonfarm nonresidential	2,437	-	3,967	6,404	512,256	518,660	450
Commercial	328	287	3,241	3,856	359,784	363,640	1,038
Consumer	237	89	106	432	78,838	79,270	58
Total	$ 4,959	$ 1,073	$ 8,803	$ 14,835	$ 1,513,634	$ 1,528,469	$ 1,876

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of information pertaining to impaired loans as of June 30, 2019 and December 31, 2018. Acquired non-impaired loans are placed on nonaccrual status and reported as impaired using the same criteria applied to the originated portfolio. Purchased impaired credits are excluded from this table. The interest income recognized for impaired loans was $118,000 and $83,000 for the six months ending June 30, 2019 and 2018, respectively.

	June 30, 2019 (Dollars in thousands)			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Real Estate Loans:				
Construction and land	$ -	$ -	$ -	$ 1
Farmland	21	22	3	21
1-4 family residential	84	117	19	184
Multi-family residential	-	-	-	-
Nonfarm nonresidential	155	166	11	484
Other Loans:				
Commercial	348	413	277	1,381
Consumer	90	94	23	88
Total	$ 698	$ 812	$ 333	$ 2,159
With no allowance recorded:				
Real Estate Loans:				
Construction and land	$ 56	$ 80	$ -	$ 84
Farmland	171	256	-	183
1-4 family residential	2,273	3,218	-	2,674
Multi-family residential	-	-	-	-
Nonfarm nonresidential	3,037	3,327	-	3,916
Other Loans:				
Commercial	3,444	4,301	-	4,560
Consumer	145	193	-	148
Total	$ 9,126	$ 11,375	$ -	$ 11,565
Total Impaired Loans:				
Real Estate Loans:				
Construction and land	$ 56	$ 80	$ -	$ 85
Farmland	192	278	3	204
1-4 family residential	2,357	3,335	19	2,858
Multi-family residential	-	-	-	-
Nonfarm nonresidential	3,192	3,493	11	4,400
Other Loans:				
Commercial	3,792	4,714	277	5,941
Consumer	235	287	23	236
Total	$ 9,824	$ 12,187	$ 333	$ 13,724

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2018 (Dollars in thousands)			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Real Estate Loans:				
Construction and land	$ -	$ -	$ -	$ 22
Farmland	-	-	-	-
1-4 family residential	363	451	96	303
Multi-family residential	-	-	-	-
Nonfarm nonresidential	447	501	47	367
Other Loans:				
Commercial	1,883	2,935	1,112	547
Consumer	25	25	25	2
Total	$ 2,718	$ 3,912	$ 1,280	$ 1,241
With no allowance recorded:				
Real Estate Loans:				
Construction and land	$ 32	$ 56	$ -	$ 15
Farmland	112	193	-	9
1-4 family residential	2,365	3,975	-	2,708
Multi-family residential	-	-	-	-
Nonfarm nonresidential	3,708	3,833	-	5,240
Other Loans:				
Commercial	3,325	4,198	-	5,350
Consumer	100	144	-	261
Total	$ 9,642	$ 12,399	$ -	$ 13,583
Total Impaired Loans:				
Real Estate Loans:				
Construction and land	$ 32	$ 56	$ -	$ 37
Farmland	112	193	-	9
1-4 family residential	2,728	4,426	96	3,011
Multi-family residential	-	-	-	-
Nonfarm nonresidential	4,155	4,334	47	5,607
Other Loans:				
Commercial	5,208	7,133	1,112	5,897
Consumer	125	169	25	263
Total	$ 12,360	$ 16,311	$ 1,280	$ 14,824

The Company elected to account for certain loans acquired in business combinations as acquired impaired loans under ASC 310-30 due to evidence of credit deterioration at acquisition and the probability that the Company will be unable to collect all contractually required payments. The expected cash flows approximated fair value as of the date of mergers.

The following table presents the changes in the carrying amount of the purchased impaired credits accounted for under ASC 310-30 for the periods presented.

	Purchased Impaired Credits
	(Dollars in thousands)
Carrying amount - December 31, 2017	$ 696
Carrying amount of purchased impaired credits acquired in MBI acquisition	5,798
Carrying amount of purchased impaired credits acquired in RSBI acquisition	4,533
Payments received, net of discounts realized	(507)
Purchased impaired credit participation interest sales proceeds, net of discount realized	210
Charge-offs	(26)
Carrying amount - December 31, 2018	10,704
Payments received, net of discounts realized	(2,887)
Carrying amount - June 30, 2019	$ 7,817

The Bank seeks to assist customers that are experiencing financial difficulty by renegotiating loans within lending regulations and guidelines. The Bank makes loan modifications, primarily utilizing internal renegotiation programs via direct customer contact, that manage customers' debt exposures held only by the Bank. Additionally, the Bank makes loan modifications with customers who have elected to work with external renegotiation agencies and these modifications provide solutions to customers' entire unsecured debt structures. During the periods ended June 30, 2019 and December 31, 2018, the concessions granted to certain borrowers included extending the payment due dates, lowering the contractual interest rate, reducing accrued interest, and reducing the debt's face or maturity amount.

Once modified in a troubled debt restructuring, a loan is generally considered impaired until its contractual maturity. At the time of the restructuring, the loan is evaluated for an asset-specific allowance for credit losses. The Bank continues to specifically reevaluate the loan in subsequent periods, regardless of the borrower's performance under the modified terms. If a borrower subsequently defaults on the loan after it is restructured, the Bank provides an allowance for credit losses for the amount of the loan that exceeds the value of the related collateral.

The following tables present informative data regarding troubled debt restructurings as of June 30, 2019 and December 31, 2018. The Bank had $79,000 in troubled debt restructurings that had subsequently defaulted during the year ended December 31, 2018 and none that had subsequently defaulted during the six months ended June 30, 2019.

Modifications as of June 30, 2019:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in thousands)	
Troubled Debt Restructuring			
Real Estate Loans:			
1-4 family residential	2	$ 17	$ 16
Nonfarm nonresidential	3	2,411	2,156
Other Loans:			
Commercial	6	5,914	2,878
Total	11	$ 8,342	$ 5,050

Modifications as of December 31, 2018:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in thousands)	
Troubled Debt Restructuring			
Real Estate Loans:			
1-4 family residential	1	$ -	$ -
Nonfarm nonresidential	3	2,412	2,308
Other Loans:			
Commercial	6	5,914	3,512
Total	10	$ 8,326	$ 5,820

Note 7 – Commitments and Contingencies –

In the normal course of business, the Bank is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby and commercial letters of credit which are not included in the accompanying financial statements. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Bank’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby and commercial letters of credit is represented by the contractual amount of those instruments. The Bank’s policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. The Bank uses the same credit policies in making such commitments and conditional obligations as it does for instruments that are included in the balance sheet. In the normal course of business, the Bank has made commitments to extend credit of approximately $329.7 million and standby and commercial letters of credit of approximately $22.9 million at June 30, 2019.

The Bank leases certain branch offices through non-cancelable operating leases with terms that range from one to ten years and contain various renewal options for certain of the leases. Rental expense under these agreements was $1.4 million and $1.2 million for the six months ended June 30, 2019 and 2018, respectively.

Future minimum lease payments under these leases are as follows:

	(Dollars in thousands)
6 months remaining in 2019	$ 1,226
2020	2,006
2021	1,736
2022	1,545
2023	1,401
After 2023	6,927
Total Future Minimum Lease Payments	14,841
Imputed Interest	(1,870)
Present Value of Lease Liabilities	$ 12,971

In the normal course of business, the Bank is involved in various legal proceedings. In the opinion of management and counsel, the disposition or ultimate resolution of such proceedings would not have a material adverse effect on the Bank's financial statements.

Note 8 – Fair Value of Financial Instruments –

Fair Value Disclosures

The Company groups its financial assets and liabilities measured at fair value in three levels. Fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the inputs used to develop those assumptions and measure fair value. The hierarchy requires companies to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Includes the most reliable sources, and includes quoted prices in active markets for identical assets or liabilities.
- Level 2 – Includes observable inputs. Observable inputs include inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates) as well as inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).
- Level 3 – Includes unobservable inputs and should be used only when observable inputs are unavailable.

Recurring Basis

Fair values of investment securities available for sale were primarily measured using information from a third-party pricing service. This pricing service provides information by utilizing evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and reference data from market research publications.

The fair values of mortgage loans held for sale are based on commitments on hand from investors within the secondary market for loans with similar characteristics.

The following tables present the balance of assets and liabilities measured on a recurring basis as of June 30, 2019 and December 31, 2018. The Company did not record any liabilities at fair value for which measurement of the fair value was made on a recurring basis.

	Fair Value	Level 1	Level 2	Level 3
		(Dollars in thousands)		
June 30, 2019				
Available for Sale:				
U.S. Government Agency Securities	$ 18,842	$ -	$ 18,842	$ -
Corporate Securities	12,933	-	12,933	-
Mortgage-Backed Securities	159,468	-	159,468	-
Municipal Securities	103,738	-	95,759	7,979
Mortgage Loans Held for Sale	443	-	443	-
Total	$ 295,424	$ -	$ 287,445	$ 7,979
December 31, 2018				
Available for Sale:				
U.S. Government Agency Securities	$ 17,439	$ -	$ 17,439	$ -
Corporate Securities	12,692	-	12,692	-
Mortgage-Backed Securities	165,618	-	165,618	-
Municipal Securities	113,767	-	105,383	8,384
Mortgage Loans Held for Sale	58	-	58	-
Total	$ 309,574	$ -	$ 301,190	$ 8,384

Nonrecurring Basis

The Company has segregated all financial assets and liabilities that are measured at fair value on a nonrecurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the tables below. The Company did not record any liabilities at fair value for which measurement of the fair value was made on a nonrecurring basis.

The fair value of the impaired loans is measured at the fair value of the collateral for collateral-dependent loans. Impaired loans are Level 2 assets measured using appraisals from external parties of the collateral less any prior liens. Repossessed assets are initially recorded at fair value less estimated cost to sell. The fair value of repossessed assets is based on property appraisals and an analysis of similar properties available. As such, the Bank records repossessed assets as Level 2.

	Fair Value	Level 1	Level 2	Level 3
		(Dollars in thousands)		
June 30, 2019				
Assets:				
Impaired Loans	$ 17,018	$ -	$ 17,018	$ -
Repossessed Assets	2,330	-	2,330	-
Total	$ 19,348	$ -	$ 19,348	$ -
December 31, 2018				
Assets:				
Impaired Loans	$ 21,557	$ -	$ 21,557	$ -
Repossessed Assets	1,920	-	1,920	-
Total	$ 23,477	$ -	$ 23,477	$ -

Fair Value Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. 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. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. In accordance with generally accepted accounting principles, certain financial instruments and all non-financial instruments are excluded from these disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Short-Term Investments – For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities – Fair value of securities is based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Loans – The fair value for loans is estimated using discounted cash flow analyses, with interest rates currently being offered for similar loans to borrowers with similar credit rates. Loans with similar classifications are aggregated for purposes of the calculations. The allowance for loan losses, which was used to measure the credit risk, is subtracted from loans.

Cash Value of Bank-Owned Life Insurance ("BOLI") – The carrying amount approximates its fair value.

Other Equity Securities – The carrying amount approximates its fair value.

Deposits – The fair value of demand deposits and certain money market deposits is the amount payable at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using discounted cash flow analyses, with interest rates currently offered for deposits of similar remaining maturities.

Borrowings – The fair value of FHLB advances and other long-term borrowings is estimated using the rates currently offered for advances of similar maturities. The carrying amount of short-term borrowings maturing within ninety days approximates the fair value.

Commitments to Extend Credit and Standby and Commercial Letters of Credit – The fair values of commitments to extend credit and standby and commercial letters of credit do not differ significantly from the commitment amount and are therefore omitted from this disclosure.

The estimated approximate fair values of the Bank's financial instruments as of June 30, 2019 and December 31, 2018 are as follows:

	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
			(Dollars in thousands)		
June 30, 2019					
Financial Assets:					
Cash and Short-Term Investments	$ 84,852	$ 84,852	$ 84,852	$ -	$ -
Securities	294,981	294,981	-	287,002	7,979
Mortgage Loans Held for Sale	443	443	-	443	-
Loans - Net	1,630,970	1,615,233	-	-	1,615,233
Cash Value of BOLI	32,223	32,223	-	32,223	-
Other Equity Securities	11,717	11,717	-	-	11,717
Total	$ 2,055,186	$ 2,039,449	$ 84,852	$ 319,668	$ 1,634,929
Financial Liabilities:					
Deposits	$ 1,702,902	$ 1,704,944	$ -	$ -	$ 1,704,944
Borrowings	149,096	164,902	-	164,902	-
Total	$ 1,851,998	$ 1,869,846	$ -	$ 164,902	$ 1,704,944

	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
			(Dollars in thousands)		
December 31, 2018					
Financial Assets:					
Cash and Short-Term Investments	$ 137,908	$ 137,908	$ 137,908	$ -	$ -
Securities	309,516	309,516	-	301,132	8,384
Mortgage Loans Held for Sale	58	58	-	58	-
Loans - Net	1,517,249	1,495,454	-	-	1,495,454
Cash Value of BOLI	31,882	31,882	-	31,882	-
Other Equity Securities	9,282	9,282	-	-	9,282
Total	$ 2,005,895	$ 1,984,100	$ 137,908	$ 333,072	$ 1,513,120
Financial Liabilities:					
Deposits	$ 1,733,934	$ 1,717,698	$ -	$ -	$ 1,717,698
Borrowings	92,229	104,930	-	104,930	-
Total	$ 1,826,163	$ 1,822,628	$ -	$ 104,930	$ 1,717,698

Note 9 – Recently Issued Accounting Pronouncements –

Accounting Standards Adopted in Current Period

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842), Conforming Amendments Related to Leases*. This ASU amends the codification regarding leases in order to increase transparency and comparability. The ASU requires companies to recognize lease assets and liabilities on the statement of condition and disclose key information about leasing arrangements. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the leased asset for the lease term. The ASU was effective on January 1, 2019. The Company recognized a right-of-use asset and lease liability of approximately $13.0 million as of June 30, 2019. The right-of-use asset and lease liability are recorded within premises and equipment and other liabilities, respectively.

Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The amendments introduce an impairment model that is based on current expected credit losses (“CECL”), rather than incurred losses, to estimate credit losses on certain types of financial instruments (ex. loans and held to maturity securities), including certain off-balance sheet financial instruments (ex. commitments to extend credit and standby letters of credit that are not unconditionally cancellable). The CECL should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments, over the contractual term. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. Financial instruments with similar risk characteristics may be grouped together when estimating the CECL. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination that are measured at amortized cost basis is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial estimate of expected credit loss would be recognized through an allowance for credit losses with an offset (i.e. increase) to the purchase price at acquisition. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for these assets. The ASU also amends the current available for sale security impairment model for debt securities whereby credit losses relating to available for sale debt securities should be recorded through an allowance for credit losses. This ASU is effective for fiscal years beginning after December 31, 2019. The amendments will be applied through a modified retrospective approach, resulting in a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently planning for the implementation of this ASU. Management is currently evaluating the potential impact of ASU 2016-13 on the Company’s consolidated financial statements. The adoption of this ASU may have a material effect on the Company’s consolidated financial statements.

On January 26, 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350)* which simplifies the accounting for goodwill impairment. The guidance in this ASU removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. The goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. The revised guidance will be applied prospectively, and is effective for calendar year-end ending in 2020 for public business entities. Early adoption is permitted for any impairment tests performed after January 1, 2017. Based on recent goodwill impairment tests, which did not require the application of Step 2, the Company does not expect the adoption of this ASU to have any immediate impact on the consolidated financial statements.

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

FORWARD-LOOKING STATEMENTS

When we refer in this Form 10-Q to "we," "our," "us," the "Company" and "Business First," we are referring to Business First Bancshares, Inc. and its consolidated subsidiaries, including Business First Bank, which we sometimes refer to as "the Bank," unless the context indicates otherwise.

The information contained in this Form 10-Q is accurate only as of the date of this form and the dates specified herein.

All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q (this "Report") and other periodic reports filed by the Company, and other written or oral statements made by us or on our behalf, are "forward-looking statements," as defined by (and subject to the "safe harbor" protections under) the federal securities laws. These forward-looking statements include statements that reflect the current views of our senior management with respect to our financial performance and future events with respect to our business and the banking industry in general. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "will continue," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," and similar expressions of a future or forward-looking nature. These statements involve estimates, assumptions, and risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements.

We believe these factors include, but are not limited to, the following:

- risks related to the integration of any acquired businesses, including exposure to potential asset quality and credit quality risks and unknown or contingent liabilities, the time and costs associated with integrating systems, technology platforms, procedures and personnel, the need for additional capital to finance such transactions, and possible failures in realizing the anticipated benefits from acquisitions;
- changes in the strength of the United States ("U.S.") economy in general and the local economy in our local market areas adversely affecting our customers and their ability to transact profitable business with us, including the ability of our borrowers to repay their loans according to their terms or a change in the value of the related collateral;
- economic risks posed by our geographic concentration in Louisiana and the Dallas/Fort Worth metroplex;
- the ability to sustain and continue our organic loan and deposit growth, and manage that growth effectively;
- market declines in industries to which we have exposure, such as the volatility in oil prices and downturn in the energy industry that impact certain of our borrowers and investments that operate within, or are backed by collateral associated with, the energy industry;
- volatility and direction of interest rates and market prices, which could reduce our net interest margins, asset valuations and expense expectations;
- interest rate risk associated with our business;
- changes in the levels of loan prepayments and the resulting effects on the value of our loan portfolio;
- increased competition in the financial services industry, particularly from regional and national institutions;
- increased credit risk in our assets and increased operating risk caused by a material change in commercial, consumer and/or real estate loans as a percentage of our total loan portfolio;
- changes in the value of collateral securing our loans;
- deteriorating asset quality and higher loan charge-offs, and the time and effort required to resolve problem assets;
- the failure of assumptions underlying the establishment of and provisions made to our allowance for credit losses;
- changes in the availability of funds resulting in increased costs or reduced liquidity;
- our ability to maintain important deposit customer relationships and our reputation;

- a determination or downgrade in the credit quality and credit agency ratings of the securities in our securities portfolio;
- increased asset levels and changes in the composition of assets and the resulting impact on our capital levels and regulatory capital ratios;
- our ability to prudently manage our growth and execute our strategy;
- risks associated with our acquisition and de novo branching strategy;
- the loss of senior management or operating personnel and the potential inability to hire qualified personnel at reasonable compensation levels;
- legislative or regulatory developments, including changes in the laws, regulations, interpretations or policies relating to financial institutions, accounting, tax, trade, monetary and fiscal matters;
- government intervention in the U.S. financial system;
- changes in statutes and government regulations or their interpretations applicable to us, including changes in tax requirements and tax rates;
- natural disasters and adverse weather, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, and other matters beyond our control; and
- other risks and uncertainties listed from time to time in our reports and documents filed with the U.S. Securities and Exchange Commission ("SEC").

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Report. Additional information on these and other risk factors can be found in Item 1A. "Risk Factors" of this Report and in Item 1A. "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission.

In the event that 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 update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF BUSINESS FIRST

The following discussion and analysis focuses on significant changes in the financial condition of Business First from December 31, 2018 to June 30, 2019, and its results of operations for the three and six months ended June 30, 2019. This discussion and analysis is intended to highlight and supplement information presented elsewhere in this report and should be read in conjunction with (i) the accompanying unaudited consolidated financial statements and the notes thereto (the "Notes") and (ii) our Annual Report on Form 10-K for the year ended December 31, 2018, including the audited consolidated financial statements and notes thereto, management's discussion and analysis, and the risk factor disclosures contained therein. This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that Business First believes are reasonable but may prove to be inaccurate. Certain risks, uncertainties and other factors, including those set forth under "Forward-Looking Statements," "Risk Factors" and elsewhere in this report, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. Business First assumes no obligation to update any of these forward-looking statements.

Overview

We are a registered bank holding company headquartered in Baton Rouge, Louisiana. Through our wholly-owned subsidiary, Business First Bank, a Louisiana state chartered bank, we provide a broad range of financial services tailored to meet the needs of small to medium-sized businesses and professionals. Since our inception in 2006, our priority has been and continues to be creating shareholder value through the establishment of an attractive commercial banking franchise in Louisiana and across our region. We consider our primary market to include the State of Louisiana and Dallas, Texas. We currently operate out of 25 banking centers in markets across Louisiana and Dallas, Texas. As of June 30, 2019, we had total assets of $2.2 billion, total loans of $1.6 billion, total deposits of $1.7 billion, and total shareholders' equity of $277.4 million.

As a bank holding company operating through one market segment, community banking, we generate most of our revenues from interest income on loans, customer service and loan fees, and interest income from securities. We incur interest expense on deposits and other borrowed funds and noninterest expense, such as salaries and employee benefits and occupancy expenses. We analyze our ability to maximize income generated from interest earning assets and expense of our liabilities through our net interest margin. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Net interest income 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, which are used to fund those assets.

Changes in the market interest rates and the interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing liabilities and shareholders' equity, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions, and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in Louisiana, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within our markets.

Financial Highlights

The financial highlights as of and for the three and six months ended June 30, 2019 include:

- **Total assets** of $2.2 billion, a $58.7 million, or 2.8%, increase from December 31, 2018.
- **Total loans held for investment** of $1.6 billion, a $114.1 million, or 7.5%, increase from December 31, 2018.
- **Total deposits** of $1.7 billion, a $31.0 million, or 1.8%, decrease from December 31, 2018.
- **Net income** of $6.8 million, a $3.2 million, or 88.1%, increase from the quarter ended June 30, 2018.
- **Net interest income** of $20.2 million, an increase of $5.2 million, or 34.8%, from the three months ended June 30, 2018.
- **Allowance for loan and lease losses** of 0.71% of total loans held for investment, compared to 0.73% as of December 31, 2018, and a ratio of nonperforming loans to total loans held for investment of 0.61%, compared to 0.89% as of December 31, 2018.
- **Earnings per share** for the first six months of 2019 of $0.94 per basic share and $0.91 per diluted share, compared to $0.65 per basic share and $0.62 per diluted share for the first six months of 2018.
- **Return on average assets** of 1.20% over the first six months of 2019, compared to 0.83% for the first six months of 2018.

- **Return on average equity** of 9.38% over the first six months of 2019, compared to 7.35% for the first six months of 2018.

- **Capital ratios** for Tier 1 Leverage, Common Equity Tier 1, Tier 1 Risk-based and Total Risk-based Capital of 10.74%, 11.73%, 11.73% and 13.69%, respectively, compared to 11.66%, 11.83%, 11.83%, and 13.91%, respectively as of December 31, 2018.

- **Book value per share** of $20.77, an increase of 5.5% from $19.68 at December 31, 2018.

Results of Operations for the Three and Six Months Ended June 30, 2019 and 2018

Performance Summary

For the three months ended June 30, 2019, net income was $6.8 million, or $0.51 per basic share and $0.50 per diluted share, compared to net income of $3.6 million, or $0.34 per basic share and $0.33 per diluted share, for the three months ended June 30, 2018. Return on average assets, on an annualized basis, increased to 1.30% for the three months ended June 30, 2019, from 0.90% for the three months ended June 30, 2018. Return on average equity, on an annualized basis, increased to 10.13% for the three months ended June 30, 2019, as compared to 7.75% for the three months ended June 30, 2018.

For the six months ended June 30, 2019, net income was $12.5 million, or $0.94 per basic share and $0.91 per diluted share, compared to net income of $6.7 million, or $0.65 per basic share and $0.62 per diluted share, for the six months ended June 30, 2018. Return on average assets, on an annualized basis, increased to 1.20% for the six months ended June 30, 2019, from 0.83% for the six months ended June 30, 2018. Return on average equity, on an annualized basis, increased to 9.38% for the six months ended June 30, 2019, as compared to 7.35% for the six months ended June 30, 2018.

Net Interest Income

Our operating results depend primarily on our net interest income, calculated as 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. Fluctuations in market interest rates impact the yield and rates paid on interest sensitive assets and liabilities. Changes in the amount and type of interest-earning assets and interest-bearing liabilities also impact net interest income. The variance driven by the changes in the amount and mix of interest-earning assets and interest-bearing liabilities is referred to as a “volume change.” Changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds are referred to as a “rate change.”

To evaluate net interest income, we measure and monitor (1) yields on our loans and other interest-earning assets, (2) the costs of our deposits and other funding sources, (3) our net interest spread and (4) our net interest margin. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is calculated as net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and shareholders’ equity also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources. We calculate average assets, liabilities, and capital using a monthly average, and average yield / rate utilizing a 30/360 day count convention.

For the three months ended June 30, 2019, net interest income totaled $20.2 million, and net interest margin and net interest spread were 4.19% and 3.75%, respectively, compared to $15.0 million, 3.98%, and 3.70%, respectively, for the three months ended June 30, 2018. The average yield on the loan portfolio was 5.96% for the three months ended June 30, 2019, compared to 5.46% for the three months ended June 30, 2018, and the average yield on total interest-earning assets was 5.37% for the three months ended June 30, 2019, compared to 4.81% for the three months ended June 30, 2018. For the three months ended June 30, 2019, overall cost of funds (which includes noninterest-bearing deposits) increased 39 basis points compared to the three months ended June 30, 2018, primarily due to our issuance of subordinated debt in December 2018 and increasing rates. While we experienced significant loan growth in average loan balances, we anticipate continued pressure on our net interest margin and net interest spread.

For the six months ended June 30, 2019, net interest income totaled $39.3 million, and net interest margin and net interest spread were 4.11% and 3.69%, respectively, compared to $29.5 million, 3.97%, and 3.72%, respectively, for the six months ended June 30, 2018. The average yield on the loan portfolio was 5.87% for the six months ended June 30, 2019, compared to 5.39% for the six months ended June 30, 2018, and the average yield on total interest-earning assets was 5.27% for the six months ended June 30, 2019, compared to 4.76% for the six months ended June 30, 2018. For the six months ended June 30, 2019, overall cost of funds (which includes noninterest-bearing deposits) increased 42 basis points compared to the six months ended June 30, 2018, primarily due to our issuance of subordinated debt in December 2018 and increasing rates. While we experienced significant loan growth in average loan balances, we anticipate continued pressure on our net interest margin and net interest spread.

The following tables present, for the periods indicated, an analysis of net interest income by each major category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding and the interest earned or paid on such amounts. The tables also set forth the average rate earned on interest-earning assets, the average rate paid on interest-bearing liabilities, and the net interest margin on average total interest-earning assets for the same periods. Interest earned on loans that are classified as nonaccrual is not recognized in income; however the balances are reflected in average outstanding balances for the period. For the three and six months ended June 30, 2019 and 2018, interest income not recognized on nonaccrual loans was not material. Any nonaccrual loans have been included in the table as loans carrying a zero yield. The average total loans reflected below is net of deferred loan fees and discounts. Acquired loans were recorded at fair value at acquisition and accrete interest income over the remaining lives of the respective loans. Averages presented in the tables below, and throughout this report, are monthly averages.

	For the Three Months Ended June 30,					
	2019			2018		
	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
	(Dollars in thousands) (Unaudited)					
Assets						
Interest-earning assets:						
Total loans	$ 1,602,087	$ 23,870	5.96%	$ 1,212,977	$ 16,549	5.46%
Securities available for sale	303,232	1,829	2.41	263,108	1,414	2.15
Interest-bearing deposits in other banks	23,716	197	3.32	29,204	128	1.75
Total interest-earning assets	1,929,035	25,896	5.37	1,505,289	18,091	4.81
Allowance for loan losses	(11,702)			(9,638)		
Noninterest-earning assets	185,359			128,544		
Total assets	$ 2,102,692	$ 25,896		$ 1,624,195	$ 18,091	
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 1,335,630	$ 5,038	1.51%	$ 1,014,520	$ 2,555	1.01%
Subordinated debt	25,000	429	6.86	—	—	—
Advances from Federal Home Loan Bank ("FHLB")	36,856	224	2.43	94,222	507	2.15
Other borrowings	14,390	12	0.33	16,220	53	1.31
Total interest-bearing liabilities	1,411,876	5,703	1.62	1,124,962	3,115	1.11
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	396,793			306,042		
Other liabilities	23,761			5,427		
Total noninterest-bearing liabilities	420,554			311,469		
Shareholders' equity	270,262			187,764		
Total liabilities and shareholders' equity	$ 2,102,692			$ 1,624,195		
Net interest rate spread[(1)]			3.75%			3.70%
Net interest income		$ 20,193			$ 14,976	
Net interest margin[(2)]			4.19%			3.98%

(1) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.
(2) Net interest margin is equal to net interest income divided by average interest-earning assets.

	For the Six Months Ended June 30,					
	2019			2018		
	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
	(Dollars in thousands) (Unaudited)					
Assets						
Interest-earning assets:						
Total loans	$ 1,575,988	$ 46,293	5.87%	$ 1,195,564	$ 32,225	5.39%
Securities available for sale	306,501	3,703	2.42	254,104	2,837	2.23
Interest-bearing deposits in other banks	31,897	487	3.05	33,419	255	1.53
Total interest-earning assets	1,914,386	50,483	5.27	1,483,087	35,317	4.76
Allowance for loan losses	(11,546)			(9,301)		
Noninterest-earning assets	186,348			145,688		
Total assets	$ 2,089,188	$ 50,483		$ 1,619,474	$ 35,317	
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 1,335,522	$ 9,795	1.47%	$ 1,020,266	$ 4,853	0.95%
Subordinated debt	25,000	845	6.76	—	—	—
Advances from FHLB	37,191	505	2.72	84,665	880	2.08
Other borrowings	13,436	25	0.37	18,975	108	1.14
Total interest-bearing liabilities	1,411,149	11,170	1.58	1,123,906	5,841	1.04
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	395,304			306,733		
Other liabilities	16,242			5,380		
Total noninterest-bearing liabilities	411,546			312,113		
Shareholders' equity	266,493			183,455		
Total liabilities and shareholders' equity	$ 2,089,188			$ 1,619,474		
Net interest rate spread(1)			3.69%			3.72%
Net interest income		$ 39,313			$ 29,476	
Net interest margin(2)			4.11%			3.97%

(1) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.
(2) Net interest margin is equal to net interest income divided by average interest-earning assets.

The following tables present information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest-earning assets and interest-bearing liabilities, and distinguishes between the changes attributable to changes in volume and changes attributable to changes in interest rates. For purposes of these tables, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

	For the Three Months Ended June 30, 2019 compared to the Three Months Ended June 30, 2018		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands) (Unaudited)		
Interest-earning assets:			
Total loans	$ 5,797	$ 1,524	$ 7,321
Securities available for sale	242	173	415
Interest-earning deposits in other banks	(46)	115	69
Total increase in interest income	$ 5,993	$ 1,812	$ 7,805
Interest-bearing liabilities:			
Interest-bearing deposits	$ 1,211	$ 1,272	$ 2,483
Subordinated debt	429	—	429
Advances from FHLB	(349)	66	(283)
Other borrowings	(2)	(39)	(41)
Total increase in interest expense	1,289	1,299	2,588
Increase in net interest income	$ 4,704	$ 513	$ 5,217

	For the Six Months Ended June 30, 2019 compared to the Six Months Ended June 30, 2018		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands) (Unaudited)		
Interest-earning assets:			
Total loans	$ 11,175	$ 2,893	$ 14,068
Securities available for sale	633	233	866
Interest-earning deposits in other banks	(23)	255	232
Total increase in interest income	$ 11,785	$ 3,381	$ 15,166
Interest-bearing liabilities:			
Interest-bearing deposits	$ 2,312	$ 2,630	$ 4,942
Subordinated debt	845	—	845
Advances from FHLB	(645)	270	(375)
Other borrowings	(10)	(73)	(83)
Total increase in interest expense	2,502	2,827	5,329
Increase in net interest income	$ 9,283	$ 554	$ 9,837

Provision for Loan Losses

Our provision for loan losses is a charge to income in order to bring our allowance for loan losses to a level deemed appropriate by management. For a description of the factors taken into account by management in determining the allowance for loan losses see *"—Financial Condition—Allowance for Loan Losses."* The provision for loan losses was $1.3 million for the three months ended June 30, 2019 and $474,000 for the same period in 2018. For the six months ended June 30, 2019 and 2018, the provision for loan losses was $1.9 million and $948,000, respectively. The higher provision for both the three months and six months ended June 30, 2019 compared to the same period in 2018 was generally attributable to a previously identified impaired loan as well as higher loan balances.

Noninterest Income

Our primary sources of noninterest income are service charges on deposit accounts, debit card and automated teller machine ("ATM") fee income, income from bank-owned life insurance, and brokerage commissions. The following tables present, for the periods indicated, the major categories of noninterest income:

	For the Three Months Ended June 30, 2019	For the Three Months Ended June 30, 2018	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Noninterest income:			
Service charges on deposit accounts	$ 1,034	$ 636	$ 398
Debit card and ATM fee income	492	255	237
Bank-owned life insurance income	174	165	9
Gain on sales of investment securities	58	—	58
Brokerage commissions	9	278	(269)
Mortgage origination income	98	67	31
Correspondent bank income	17	81	(64)
Rental income	165	165	—
Gain on sale of banking center	593	—	593
Pass-through income from SBIC partnerships	1,266	222	1,044
Other	313	137	176
Total noninterest income	$ 4,219	$ 2,006	$ 2,213

	For the Six Months Ended June 30, 2019	For the Six Months Ended June 30, 2018	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Noninterest income:			
Service charges on deposit accounts	$ 1,972	$ 1,246	$ 726
Debit card and ATM fee income	937	505	432
Bank-owned life insurance income	342	334	8
Gain on sales of investment securities	58	—	58
Brokerage commissions	43	512	(469)
Mortgage origination income	188	114	74
Correspondent bank income	225	162	63
Rental income	329	329	—
Gain on sale of banking center	593	—	593
Pass-through income from SBIC partnerships	1,266	222	1,044
Other	577	317	260
Total noninterest income	$ 6,530	$ 3,741	$ 2,789

Noninterest income for the three months ended June 30, 2019 increased $2.2 million, or 110.3%, to $4.2 million compared to noninterest income of $2.0 million for the same period in 2018. Noninterest income for the six months ended June 30, 2019 increased $2.8 million, or 74.6%, to $6.5 million compared to noninterest income of $3.7 million for the same period in 2018. The primary components of noninterest income were as follows:

Service charges on deposit accounts. We earn fees from our customers for deposit-related services, and these fees constitute a significant and predictable component of our noninterest income. Service charges on deposit accounts were $1.0 million for the three months ended June 30, 2019, an increase of $398,000 over the same period in 2018. For the six months ended June 30, 2019, service charges on deposit accounts were $2.0 million, an increase of $726,000 over the same period in 2018. The increase for both the three and six months ended June 30, 2019, over the same period in 2018, was primarily due to increases in deposit balances and accounts from the acquisition of Richland State Bancorp, Inc. ("RSBI") in November 2018 and organic growth.

Debit card and ATM fee income. We earn fees from our customers based upon card activity, and these fees constitute a significant recurring component of our noninterest income. Fee income was $492,000 and $255,000 for the three months ended June 30, 2019 and 2018, respectively, representing an increase of $237,000, or 92.9%. For the six months ended June 30, 2019 and 2018, fee income was $937,000 and $505,000, respectively, representing an increase of $432,000, or 85.5%. The increase for both the three and six months ended June 30, 2019, over the same period in 2018, was primarily due to the additional accounts from the acquisition of RSBI and organic growth.

Brokerage commissions. We earn commissions from brokerage services provided by our Wealth Solutions Group. Brokerage commissions were $9,000 and $278,000 for the three months ended June 30, 2019 and 2018, respectively. For the six months ended June 30, 2019 and 2018, brokerage commissions were $43,000 and $512,000, respectively. The decrease for both the three and six months ended June 30, 2019 over the same period in 2018, was primarily due to restructuring our brokerage activities.

Gain on sale of banking center. We sold a banking center located in Mangham, Louisiana that resulted in a gain of $593,000 during the second quarter of 2019.

Pass-through income from SBIC partnerships. During the quarter, we recognized investment income (largely related to a dividend recapitalization) which increased both our three months and six months ended June 30, 2019 income, compared to the same period in 2018.

Other. This category includes a variety of other income producing activities, including wire transfer fees, mortgage-related income, insurance commissions, credit card income and participation fee income. Other income increased $176,000, or 128.5%, for the three months ended June 30, 2019, compared to the same period in 2018. For the six months ended June 30, 2019, other income increased $260,000, or 82.0%. The increase for both the three months and six months ended June 30, 2019, compared to the same periods in 2018, was primarily due to increases in the use of these services by legacy RSBI customers. We also received a grant for the six months ended June 30, 2019 in the amount of $113,000 that represented part of the increase.

Noninterest Expense

Generally, noninterest expense is composed of all employee expenses and costs associated with operating our facilities, obtaining and retaining customer relationships, and providing bank services. The largest component of noninterest expense is salaries and employee benefits. Noninterest expense also includes operational expenses, such as occupancy expenses, depreciation and amortization, professional and regulatory fees, including Federal Deposit Insurance Corporation ("FDIC") assessments, data processing expenses, and advertising and promotion expenses.

The following tables present, for the periods indicated, the major categories of noninterest expense:

	For the Three Months Ended June 30,		
	2019	2018	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Salaries and employee benefits	$ 8,756	$ 6,524	$ 2,232
Non-staff expenses:			
Occupancy of bank premises	1,079	861	218
Depreciation and amortization	633	407	226
Data processing	576	355	221
FDIC assessment fees	248	331	(83)
Legal and other professional fees	353	509	(156)
Advertising and promotions	279	298	(19)
Utilities and communications	323	269	54
Ad valorem shares tax	345	322	23
Directors' fees	125	92	33
Other real estate owned expenses and write-downs	72	7	65
Merger and conversion related expenses	235	415	(180)
Other	1,553	1,635	(82)
Total noninterest expense	$ 14,577	$ 12,025	$ 2,552

	For the Six Months Ended June 30,		Increase
	2019	2018	(Decrease)
	(Dollars in thousands) (Unaudited)		
Salaries and employee benefits	$ 17,308	$ 13,228	$ 4,080
Non-staff expenses:			
Occupancy of bank premises	2,182	1,718	464
Depreciation and amortization	1,261	829	432
Data processing	1,192	765	427
FDIC assessment fees	398	724	(326)
Legal and other professional fees	671	911	(240)
Advertising and promotions	606	527	79
Utilities and communications	621	541	80
Ad valorem shares tax	690	644	46
Directors' fees	330	251	79
Other real estate owned expenses and write-downs	99	9	90
Merger and conversion related expenses	(19)	927	(946)
Other	3,028	2,895	133
Total noninterest expense	$ 28,367	$ 23,969	$ 4,398

Noninterest expense for the three months ended June 30, 2019 increased $2.6 million, or 21.2%, to $14.6 million, compared to noninterest expense of $12.0 million for the same period in 2018. For the six months ended June 30, 2019, noninterest expense increased $4.4 million, or 18.3%, to $28.4 million, compared to noninterest expense of $24.0 million for the same period in 2018. The most significant components of the increases were as follows:

Salaries and employee benefits. Salaries and employee benefits are the largest component of noninterest expense and include payroll expense, the cost of incentive compensation, stock-based compensation, benefit plans, health insurance and payroll taxes. Salaries and employee benefits were $8.8 million for the three months ended June 30, 2019, an increase of $2.2 million, or 34.2%, compared to the same period in 2018. For the six months ended June 30, 2019, salaries and benefits were $17.3 million, an increase of $4.1 million, or 30.8%, compared to the same period in 2018. The increases were primarily due to additional hires for new positions, our merit increase cycle, and the acquisition of RSBI (including severance and retention payments related to the acquisitions) and its legacy operations and employees. As of June 30, 2019, we had 348 full-time equivalent employees, compared to 241 as of June 30, 2018.

Occupancy of bank premises. Expenses associated with occupancy of premises were $1.1 million and $861,000 for the three months ended June 30, 2019 and 2018, respectively. For the six months ended June 30, 2019 and 2018, occupancy and bank premises expenses were $2.2 million and $1.7 million, respectively. The increase for both the three and six months ended June 30, 2019, compared to the same period in 2018, is primarily due to increased rent expense on our corporate office location and the acquisition of RSBI and its legacy branch locations.

Depreciation and amortization. Depreciation and amortization costs were $633,000 and $407,000 for the three months ended June 30, 2019 and 2018, respectively. For the six months ended June 30, 2019 and 2018, depreciation and amortization costs were $1.3 million and $829,000, respectively. This category includes leasehold, furniture, fixtures and equipment depreciation totaling $403,000 and $275,000 for the three months ended June 30, 2019 and 2018, respectively. For the six months ended June 30, 2019 and 2018, depreciation expense totaled $801,000 and $566,000, respectively. The amortization of intangible assets was $230,000 and $132,000 for the three months ended June 30, 2019 and 2018, respectively. For the six months ended June 30, 2019 and 2018, amortization of intangible assets was $460,000 and $263,000, respectively.

FDIC assessment fees. FDIC assessment fees were $248,000 and $331,000 for the three months ended June 30, 2019 and 2018, respectively. For the six months ended June 30, 2019 and 2018, FDIC assessment fees were $398,000 and $724,000, respectively. The decrease for both the three months and six months ended June 30, 2019, compared to the same period in 2018, is primarily due to increased capital ratios.

Legal and other professional fees. Other professional fees include audit, loan review, compliance, and other consultants. Legal and other professional fees were $353,000 and $509,000 for the three months ended June 30, 2019 and 2018, respectively. For the six months ended June 30, 2019 and 2018, legal and other professional fees were $671,000 and $911,000, respectively. The decrease for both the three months and six months ended June 30, 2019 was due to legal fees in 2018 related to acquisitions and our listing on the NASDAQ Global Select Market.

Merger and conversion related expenses. Merger and conversion related expenses for the three months and six months ended June 30, 2019 and 2018 were related to the acquisitions of RSBI and Minden Bancorp, Inc. ("MBI"), respectively. During the six months ended June 30, 2019, we had a merger related termination fee downward adjustment of $469,000 from the original estimate.

Other. This category includes various operating and administrative expenses, including business development expenses (i.e. travel and entertainment, donations and club dues), insurance, supplies and printing, equipment rent, and software support and maintenance. Other noninterest expense decreased $82,000 for the three months ended June 30, 2019 compared to the same period in 2018. Other noninterest expense increased $133,000 for the six months ended June 30, 2019. The decrease in other expenses for the three months ended June 30, 2019, compared to the same period in 2018, is due to being able to utilize some common vendors to cut down on expenses. The increase in other expenses for the six months ended June 30, 2019, compared to the same period in 2018, was primarily due to the acquisition of RSBI and its legacy operations.

Income Tax Expense

The amount of income tax expense is influenced by the amounts of our pre-tax income, tax-exempt income and other nondeductible expenses. Deferred tax assets and liabilities are reflected at currently enacted income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

For the three months ended June 30, 2019, income tax expense totaled $1.7 million, an increase of $845,000, or 100.0%, compared to the same period in 2018. For the six months ended June 30, 2019, income tax expense totaled $3.0 million, an increase of $1.5 million, or 95.6%, compared to the same period in 2018. Our effective tax rates for the three months ended June 30, 2019 and 2018 were 19.8% and 18.8%, respectively. For the six months ended June 30, 2019 and 2018, our effective tax rates were 19.6% and 18.7%, respectively. The increase in our effective tax rate for both the three and six months ended June 30, 2019 is primarily due to higher taxable income. Our effective tax rate for both periods was affected by tax-exempt income generated by municipal securities and BOLI and by other nondeductible expenses.

Financial Condition

Our total assets increased $58.7 million, or 2.8%, from December 31, 2018 to June 30, 2019.

Loan Portfolio

Our primary source of income is interest on loans to individuals, professionals and small to medium-sized businesses located in our markets. Our loan portfolio consists primarily of commercial loans and real estate loans secured by commercial real estate properties located in our primary market areas. Our loan portfolio represents the highest yielding component of our earning asset base.

As of June 30, 2019, total loans held for investment were $1.6 billion, an increase of $114.1 million, or 7.5%, compared to December 31, 2018. The increase was primarily due to our continued loan penetration in our primary market areas. Additionally, $443,000 and $58,000 in mortgage loans were classified as loans held for sale as of June 30, 2019 and December 31, 2018, respectively.

Total loans held for investment as a percentage of total deposits were 96.5% and 88.2% as of June 30, 2019 and December 31, 2018, respectively. Total loans held for investment as a percentage of total assets were 76.3% and 73.0% as of June 30, 2019 and December 31, 2018, respectively.

The following table summarizes our loan portfolio by type of loan as of the dates indicated:

	As of June 30, 2019 (Unaudited)		As of December 31, 2018	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Commercial	$ 411,256	25.0%	$ 363,640	23.8%
Real estate:				
Construction and land	227,102	13.8	211,054	13.8
Farmland	47,245	2.9	45,989	3.0
1-4 family residential	278,610	17.0	270,583	17.7
Multi-family residential	38,698	2.3	39,273	2.6
Nonfarm nonresidential	561,149	34.2	518,660	33.9
Consumer	78,513	4.8	79,270	5.2
Total loans held for investment	$ 1,642,573	100.0%	$ 1,528,469	100.0%

Commercial loans. Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. These loans are made based primarily on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and generally include personal guarantees.

Commercial loans increased $47.6 million, or 13.1%, to $411.3 million as of June 30, 2019 from $363.6 million as of December 31, 2018, primarily due to the efforts of our bankers who attracted new clients and leveraged existing bank relationships to fund expansion and growth opportunities.

Construction and land. Construction and land development loans are comprised of loans to fund construction, land acquisition and land development construction. The properties securing the portfolio are located primarily throughout Louisiana and Dallas, Texas, and are generally diverse in terms of type.

Construction and land loans increased $16.0 million, or 7.6%, to $227.1 million as of June 30, 2019 from $211.1 million as of December 31, 2018, primarily due to opportunities to fund small residential land development projects with proven developers who are existing customers of the Bank and have demonstrated a successful track record for many years.

1-4 family residential. Our 1-4 family residential loan portfolio is comprised of loans secured primarily by single family homes, which are both owner-occupied and investor owned. Our 1-4 family residential loans have a relatively small average balance spread between many individual borrowers.

1-4 family residential loans increased $8.0 million, or 3.0%, to $278.6 million as of June 30, 2019 from $270.6 million as of December 31, 2018.

Nonfarm nonresidential. Nonfarm nonresidential loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. These loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the portfolio are located throughout Louisiana and Texas and are generally diverse in terms of type. This diversity helps reduce the exposure to adverse economic events that affect any single industry.

Nonfarm nonresidential loans increased $42.5 million, or 8.2%, to $561.1 million as of June 30, 2019 from $518.7 million as of December 31, 2018.

Other loan categories. Other categories of loans included in our loan portfolio include farmland and agricultural loans made to farmers and ranchers relating to their operations, multi-family residential loans, and consumer loans. None of these categories of loans represent a significant portion of our total loan portfolio.

The contractual maturity ranges of loans in our loan portfolio and the amount of such loans with fixed and floating interest rates in each maturity range as of date indicated are summarized in the following tables:

	As of June 30, 2019			
	One Year or Less	One Through Five Years	After Five Years	Total
	(Dollars in thousands) (Unaudited)			
Commercial	$ 156,290	$ 192,041	$ 62,925	$ 411,256
Real estate:				
Construction and land	110,148	102,341	14,613	227,102
Farmland	9,375	28,732	9,138	47,245
1-4 family residential	40,253	153,826	84,531	278,610
Multi-family residential	16,399	8,184	14,115	38,698
Nonfarm nonresidential	74,105	319,733	167,311	561,149
Consumer	29,057	46,183	3,273	78,513
Total loans held for investment	$ 435,627	$ 851,040	$ 355,906	$ 1,642,573
Amounts with fixed rates	$ 150,034	$ 617,587	$ 265,799	$ 1,033,420
Amounts with floating rates	285,593	233,453	90,107	609,153

	As of December 31, 2018			
	One Year or Less	One Through Five Years	After Five Years	Total
	(Dollars in thousands)			
Commercial	$ 137,581	$ 161,874	$ 64,185	$ 363,640
Real estate:				
Construction and land	104,033	74,730	32,291	211,054
Farmland	12,340	31,755	1,894	45,989
1-4 family residential	40,613	137,617	92,353	270,583
Multi-family residential	12,253	12,945	14,075	39,273
Nonfarm nonresidential	61,561	294,683	162,416	518,660
Consumer	36,129	37,161	5,980	79,270
Total loans held for investment	$ 404,510	$ 750,765	$ 373,194	$ 1,528,469
Amounts with fixed rates	$ 147,087	$ 541,076	$ 267,748	$ 955,911
Amounts with floating rates	257,423	209,689	105,446	572,558

Nonperforming Assets

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. 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 is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

We have several procedures in place to assist in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our bankers, and we also monitor our delinquency levels for any negative or adverse trends. There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

We believe our conservative lending approach and focused management of nonperforming assets has resulted in sound asset quality and timely resolution of problem assets. We had $12.4 million and $15.5 million in nonperforming assets as of June 30, 2019 and December 31, 2018, respectively. We had $10.1 million in nonperforming loans as of June 30, 2019 compared to $13.6 million as of December 31, 2018. The decrease in nonperforming assets from December 31, 2018 to June 30, 2019 is primarily due to the reduction in nonaccrual loans and loans past due 90 or more days.

The following tables present information regarding nonperforming loans at the dates indicated:

	As of June 30, 2019 (Unaudited)	As of December 31, 2018
	(Dollars in thousands)	
Nonaccrual loans	$ 9,363	$ 11,691
Accruing loans 90 or more days past due	727	1,876
Total nonperforming loans	10,090	13,567
Repossessed assets	6	11
Other real estate owned:		
Commercial real estate, construction, land and land development	2,247	1,568
Residential real estate	77	341
Total other real estate owned	2,324	1,909
Total nonperforming assets	$ 12,420	$ 15,487
Restructured loans-nonaccrual	$ 2,247	$ 2,900
Restructured loans-accruing	2,803	2,920
Ratio of nonperforming loans to total loans held for investment	0.61%	0.89%
Ratio of nonperforming assets to total assets	0.58	0.74

	As of June 30, 2019 (Unaudited)	As of December 31, 2018
	(Dollars in thousands)	
Nonaccrual loans by category:		
Real estate:		
Construction and land	$ 56	$ 32
Farmland	192	112
1-4 family residential	2,340	2,728
Multi-family residential	—	—
Nonfarm nonresidential	5,201	6,031
Commercial	1,363	2,663
Consumer	211	125
Total	$ 9,363	$ 11,691

Potential Problem Loans

From a credit risk standpoint, we classify loans in our portfolio in one of four categories: pass, special mention, substandard or doubtful. Loans classified as loss are charged-off. The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. Ratings are adjusted to reflect the degree of risk and loss that is believed to be inherent in each credit. Our methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk of loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk of loss).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness; however, such concerns are not so pronounced that we generally expect to experience significant loss within the short-term. These credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits with a lower rating.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses which exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful have all the weaknesses inherent in those rated 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.

The following tables summarize our internal ratings of loans held for investment as of the dates indicated.

	As of June 30, 2019				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands) (Unaudited)				
Real estate:					
Construction and land	$ 224,062	$ 1,799	$ 1,185	$ 56	$ 227,102
Farmland	46,227	812	14	192	47,245
1-4 family residential	269,416	3,718	3,136	2,340	278,610
Multi-family residential	38,664	—	34	—	38,698
Nonfarm nonresidential	538,718	12,554	4,676	5,201	561,149
Commercial	396,324	5,921	7,647	1,364	411,256
Consumer	76,882	1,283	113	235	78,513
Total	$ 1,590,293	$ 26,087	$ 16,805	$ 9,388	$ 1,642,573

	As of December 31, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real estate:					
Construction and land	$ 209,027	$ 718	$ 1,277	$ 32	$ 211,054
Farmland	45,563	153	161	112	45,989
1-4 family residential	260,325	4,601	2,929	2,728	270,583
Multi-family residential	39,237	—	36	—	39,273
Nonfarm nonresidential	494,698	14,421	3,510	6,031	518,660
Commercial	347,839	5,690	7,448	2,663	363,640
Consumer	77,731	1,180	234	125	79,270
Total	$ 1,474,420	$ 26,763	$ 15,595	$ 11,691	$ 1,528,469

Allowance for Loan Losses

We maintain an allowance for loan losses that represents management's best estimate of the loan losses and risks inherent in the loan portfolio. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates. For additional information, see Note 6 to the consolidated financial statements.

In connection with our review of the loan portfolio, we consider risk elements attributable to particular loan types or categories in assessing the quality of individual loans. Some of the risk elements we consider include:

- for commercial and industrial loans, the operating results of the commercial, industrial or professional enterprise, the borrower's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in that category, and the value, nature and marketability of collateral;

- for commercial mortgage loans and multifamily residential loans, the debt service coverage ratio (income from the property in excess of operating expenses compared to loan payment requirements), operating results of the owner in the case of owner occupied properties, the loan to value ratio, the age and condition of the collateral, and the volatility of income, property value and future operating results typical for properties of that type;

- for 1-4 family residential mortgage loans, the borrower's ability to repay the loan, including a consideration of the debt to income ratio and employment and income stability, the loan to value ratio, and the age, condition and marketability of the collateral; and

- for construction, land development and other land loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease, the quality and nature of contracts for presale or prelease, if any, the experience and ability of the developer, and the loan to value ratio.

As of June 30, 2019, the allowance for loan losses totaled $11.6 million, or 0.71%, of total loans held for investment. As of December 31, 2018, the allowance for loan losses totaled $11.2 million, or 0.73%, of total loans held for investment.

The following table presents, as of and for the periods indicated, an analysis of the allowance for loan losses and other related data:

	As of and For the Six Months Ended June 30, 2019 (Unaudited)	As of and For the Year Ended December 31, 2018
	(Dollars in thousands)	
Average loans outstanding[1]	$ 1,575,988	$ 1,258,178
Gross loans held for investment outstanding at end of period	$ 1,642,573	$ 1,528,469
Allowance for loan losses at beginning of period	$ 11,220	$ 8,765
Provision for loan losses	1,935	2,390
Charge-offs:		
Real estate:		
Construction, land and farmland	4	90
Residential	54	294
Nonfarm non-residential	10	—
Commercial	1,540	—
Consumer	14	88
Total charge-offs	1,622	472
Recoveries:		
Real estate:		
Construction, land and farmland	—	398
Residential	9	18
Nonfarm non-residential	—	13
Commercial	33	28
Consumer	28	80
Total recoveries	70	537
Net charge-offs (recoveries)	1,552	(65)
Allowance for loan losses at end of period	$ 11,603	$ 11,220
Ratio of allowance to end of period loans held for investment	0.71%	0.73%
Ratio of net charge-offs (recoveries) to average loans	0.10%	—

(1) Excluding loans held for sale.

Although we believe that we have established our allowance for loan losses in accordance with U.S. generally accepted accounting principles ("GAAP") and that the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times shown above, future provisions will be subject to ongoing evaluations of the risks in our loan portfolio. If we experience economic declines or if asset quality deteriorates, material additional provisions could be required.

The following table shows the allocation of the allowance for loan losses among loan categories and certain other information as of the dates indicated. The allocation of the allowance for loan losses as shown in the table should neither be interpreted as an indication of future charge-offs, nor as an indication that charge-offs in future periods will necessarily occur in these amounts or in the indicated proportions. The total allowance is available to absorb losses from any loan category.

	As of June 30, 2019 (Unaudited)		As of December 31, 2018	
	Amount	Percent to Total	Amount	Percent to Total
	(Dollars in thousands)			
Real estate:				
Construction and land	$ 1,792	15.4%	$ 1,590	14.2%
Farmland	192	1.7	104	0.9
1-4 family residential	1,714	14.8	1,538	13.7
Multi-family residential	243	2.1	236	2.1
Nonfarm nonresidential	3,411	29.4	2,715	24.2
Total real estate	7,352	63.4	6,183	55.1
Commercial	3,670	31.6	4,453	39.7
Consumer	581	5.0	584	5.2
Total allowance for loan losses	$ 11,603	100.0%	$ 11,220	100.0%

Securities

We use our securities portfolio to provide a source of liquidity, an appropriate return on funds invested, manage interest rate risk, meet collateral requirements, and meet regulatory capital requirements. As of June 30, 2019, the carrying amount of investment securities totaled $295.0 million, a decrease of $14.5 million, or 4.7%, compared to $309.5 million as of December 31, 2018. Our securities portfolio represented 13.7% and 14.8% of total assets as of June 30, 2019 and December 31, 2018, respectively.

Our investment portfolio consists entirely of securities classified as available for sale. As a result, the carrying values of our investment securities are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income in shareholders' equity. The following tables summarize the amortized cost and estimated fair value of investment securities as of the dates shown:

	As of June 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands) (Unaudited)			
U.S. government agencies	$ 18,364	$ 478	$ —	$ 18,842
Corporate bonds	13,039	103	209	12,933
Mortgage-backed securities	158,297	1,946	775	159,468
Municipal securities	102,499	1,272	33	103,738
Total	$ 292,199	$ 3,799	$ 1,017	$ 294,981

	As of December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. government agencies	$ 17,529	$ 54	$ 144	$ 17,439
Corporate bonds	13,052	76	436	12,692
Mortgage-backed securities	168,854	328	3,564	165,618
Municipal securities	114,472	250	955	113,767
Total	$ 313,907	$ 708	$ 5,099	$ 309,516

All of our mortgage-backed securities are agency securities. We do not hold any Fannie Mae or Freddie Mac preferred stock, corporate equity, collateralized debt obligations, collateralized loan obligations, structured investment vehicles, private label collateralized mortgage obligations, subprime, Alt-A, or second lien elements in our investment portfolio. As of June 30, 2019, the investment portfolio did not contain any securities that are directly backed by subprime or Alt-A mortgages.

Management evaluates securities for other-than-temporary impairment, at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

The following tables set forth the fair value, maturities and approximated weighted average yield based on estimated annual income divided by the average amortized cost of the securities portfolio as of the dates indicated. The contractual maturity of a mortgage-backed security is the date at which the last underlying mortgage matures.

	As of June 30, 2019									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands) (Unaudited)									
U.S. government agencies	$ —	—%	$ 6,849	2.86%	$ 11,993	2.89%	$ —	—%	$ 18,842	2.88%
Corporate bonds	—	—%	8,488	3.79%	4,445	5.22%	—	—%	12,933	4.28%
Mortgage-backed securities	111	—%	10,782	2.41%	79,078	2.17%	69,497	2.76%	159,468	2.44%
Municipal securities	13,051	2.07%	39,924	2.16%	37,934	2.28%	12,829	2.89%	103,738	2.28%
Total	$ 13,162	2.05%	$ 66,043	2.48%	$ 133,450	2.37%	$ 82,326	2.78%	$ 294,981	2.49%

	As of December 31, 2018									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
U.S. government agencies	$ 997	1.11%	$ 6,915	2.85%	$ 9,527	2.85%	$ —	—%	$ 17,439	2.75%
Corporate bonds	—	—%	8,316	3.78%	4,376	5.22%	—	—%	12,692	4.28%
Mortgage-backed securities	71	1.27%	13,308	2.45%	82,754	2.16%	69,485	2.82%	165,618	2.46%
Municipal securities	14,227	1.98%	45,674	2.09%	38,222	2.20%	15,644	2.77%	113,767	2.21%
Total	$ 15,295	1.92%	$ 74,213	2.42%	$ 134,879	2.32%	$ 85,129	2.81%	$ 309,516	2.46%

The contractual maturity of mortgage-backed securities, collateralized mortgage obligations and asset backed securities is not a reliable indicator of their expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities and asset-backed securities are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to pre-pay. Monthly pay downs on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal and, consequently, the average life of this security will be lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of this security. The weighted average life of our investment portfolio was 4.31 years with an estimated effective duration of 41.65 months as of June 30, 2019.

As of June 30, 2019 and December 31, 2018, we did not own securities of any one issuer for which aggregate adjusted cost exceeded 10% of our consolidated shareholders' equity as of such respective dates.

Deposits

We offer a variety of deposit accounts having a wide range of interest rates and terms including demand, savings, money market and time accounts. We rely primarily on competitive pricing policies, convenient locations and personalized service to attract and retain these deposits.

Total deposits decreased by $31.0 million between December 31, 2018 and June 30, 2019 primarily due to the sale of a banking center and $24.9 million in associated deposits.

Noninterest-bearing deposits as of June 30, 2019 were $394.8 million, compared to $382.4 million as of December 31, 2018, an increase of $12.5 million, or 3.3%.

Average deposits for the six months ended June 30, 2019 were $1.7 billion, an increase of $359.3 million, or 26.2%, over the average deposits for the year ended December 31, 2018 of $1.4 billion. The average rate paid on total interest-bearing deposits increased over this period from 1.12% for the year ended December 31, 2018 to 1.47% for the six months ended June 30, 2019. The increase in average rates during the six months ended June 30, 2019 over the average for the year ended December 31, 2018 was primarily due to the increase in deposit pricing from rising interest rates. In addition, the stability and continued growth of noninterest-bearing demand accounts served to reduce the cost of deposits to 1.13% for the six months ended June 30, 2019 and 0.86% for the year ended December 31, 2018.

The following table presents the monthly average balances and weighted average rates paid on deposits for the periods indicated:

	For the Six Months Ended June 30, 2019 (Unaudited)		For the Year Ended December 31, 2018	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)			
Interest-bearing demand accounts	$ 35,579	1.26%	$ 37,178	0.88%
Negotiable order of withdrawal (“NOW”) accounts	276,686	0.91%	183,705	0.57%
Limited access money market accounts and savings	437,543	1.01%	356,880	0.74%
Certificates and other time deposits > $250k	191,245	2.02%	152,159	1.60%
Certificates and other time deposits ≤ $250k	394,469	2.11%	322,010	1.67%
Total interest-bearing deposits	1,335,522	1.47%	1,051,932	1.12%
Noninterest-bearing demand accounts	395,304	—	319,623	—
Total deposits	$ 1,730,826	1.13%	$ 1,371,555	0.86%

The ratio of average noninterest-bearing deposits to average total deposits for the six months ended June 30, 2019 and the year ended December 31, 2018 was 22.8% and 23.3%, respectively.

The following tables set forth the certificates of deposit by time remaining until maturity:

	As of June 30, 2019			
	Certificates of Deposit More Than $250,000	Certificates of Deposit of $100,000 Through $250,000	Certificates of Deposit Less Than $100,000	Total
	(Dollars in thousands) (Unaudited)			
1 year or less	$ 98,226	$ 202,962	$ 67,469	$ 368,657
More than 1 year but less than 3 years	62,315	89,696	37,027	189,038
3 years or more but less than 5 years	6,334	7,062	5,967	19,363
5 years or more	—	—	—	—
Total	$ 166,875	$ 299,720	$ 110,463	$ 577,058

	As of December 31, 2018			
	Certificates of Deposit More Than $250,000	Certificates of Deposit of $100,000 Through $250,000	Certificates of Deposit Less Than $100,000	Total
	(Dollars in thousands)			
1 year or less	$ 89,045	$ 214,470	$ 71,097	$ 374,612
More than 1 year but less than 3 years	60,161	69,613	36,438	166,212
3 years or more but less than 5 years	10,939	12,226	7,121	30,286
5 years or more	—	—	—	—
Total	$ 160,145	$ 296,309	$ 114,656	$ 571,110

Borrowings

We utilize short-term and long-term borrowings to supplement deposits in funding our lending and investment activities. In addition, we use short-term borrowings to periodically repurchase outstanding shares of our common stock and for general corporate purposes. Each of these relationships are discussed below.

FHLB advances. The Federal Home Loan Bank, or FHLB, allows us to borrow on a blanket floating lien status collateralized by certain securities and loans. We utilize these borrowings to meet liquidity needs and to fund certain fixed rate loans in our portfolio. As of June 30, 2019 and December 31, 2018, total borrowing capacity of $603.1 million and $544.0 million, respectively, was available under this arrangement, and $108.0 million and $55.0 million, respectively, was outstanding with a weighted average stated interest rate of 2.14% as of June 30, 2019 and 2.47% as of December 31, 2018. Our current FHLB advances mature within five years.

The following table presents our FHLB borrowings at the dates indicated.

	FHLB Advances (Dollars in Thousands)
June 30, 2019	
Amount outstanding at quarter-end	$ 108,000
Weighted average stated interest rate at quarter-end	2.14%
Maximum month-end balance during the quarter	$ 108,000
Average balance outstanding during the quarter	$ 36,856
Weighted average interest rate during the quarter	2.43%
December 31, 2018	
Amount outstanding at year-end	$ 55,000
Weighted average stated interest rate at year-end	2.47%
Maximum month-end balance during the year	$ 105,000
Average balance outstanding during the year	$ 84,187
Weighted average interest rate during the year	2.20%

Subordinated Debt. On December 17, 2018 we entered into a subordinated debt agreement with EJF Capital, LLC for $25.0 million in subordinated notes due in 2033. This subordinated debt is due at maturity with quarterly interest payments bearing a 6.75% fixed-to-floating rate. The balance outstanding at both June 30, 2019 and December 31, 2018 was $25.0 million. This subordinated debt agreement was established for the purpose of paying off the FNBB long term advance and line of credit and to gain additional Tier 2 capital.

The following table presents the subordinated debt at the dates indicated.

	Subordinated Debt (Dollars in Thousands)	
June 30, 2019		
Amount outstanding at quarter-end	$	25,000
Weighted average stated interest rate at quarter-end		6.75%
Maximum month-end balance during the quarter	$	25,000
Average balance outstanding during the quarter	$	25,000
Weighted average interest rate during the quarter		6.86%
December 31, 2018		
Amount outstanding at year-end	$	25,000
Weighted average stated interest rate at year-end		6.75%
Maximum month-end balance during the year	$	25,000
Average balance outstanding during the year	$	1,027
Weighted average interest rate during the year		6.75%

Correspondent Bank Federal Funds Purchased Relationships

We maintain Federal Funds Purchased Relationships with the following financial institutions and limits as of June 30, 2019:

	Fed Funds Limits (Dollars in Thousands)	
FNBB	$	35,000
Compass Bank	$	30,000
The Independent Bankers Bank	$	25,000
FTN	$	17,000
ServisFirst Bank	$	10,000
Center State Bank	$	9,000

The following table represents combined Federal Funds Purchased for all relationships at the dates indicated.

	Fed Funds Purchased (Dollars in Thousands)	
June 30, 2019		
Amount outstanding at quarter-end	$	—
Weighted average interest rate at quarter-end		—%
Maximum month-end balance during the quarter	$	—
Average balance outstanding during the quarter	$	85
Weighted average interest rate during the quarter		3.05%
December 31, 2018		
Amount outstanding at year-end	$	—
Weighted average interest rate at year-end		—%
Maximum month-end balance during the year	$	—
Average balance outstanding during the year	$	114
Weighted average interest rate during the year		2.44%

Liquidity and Capital Resources

Liquidity

Liquidity involves our ability to utilize funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events. For the six months ended June 30, 2019 and the year ended December 31, 2018, liquidity needs were primarily met by core deposits, security and loan maturities, and amortizing investment and loan portfolios. Although access to brokered deposits, purchased funds from correspondent banks and overnight advances from the FHLB have been utilized on occasion to take advantage of investment opportunities, we do not generally rely on these external funding sources. As of June 30, 2019 and December 31, 2018, we maintained six lines of credit with commercial banks which provided for extensions of credit with an availability to borrow up to an aggregate of $126.0 million. There were no funds under these lines of credit outstanding as of June 30, 2019 or December 31, 2018.

The following table illustrates, during the periods presented, the mix of our funding sources and the average assets in which those funds are invested as a percentage of average total assets for the periods indicated. Average total assets equaled $2.1 billion and $1.7 billion for the six months ended June 30, 2019 and the year ended December 31, 2018, respectively.

	For the Six Months Ended June 30, 2019	For the Year Ended December 31, 2018
	(Unaudited)	
Sources of Funds:		
Deposits:		
Noninterest-bearing	18.9%	19.0%
Interest-bearing	63.9%	62.5%
Subordinated debt	1.2%	0.1%
Advances from FHLB	1.8%	5.0%
Other borrowings	0.6%	1.1%
Other liabilities	0.8%	0.4%
Shareholders' equity	12.8%	11.9%
Total	100.0%	100.0%
Uses of Funds:		
Loans, net of allowance for loan losses	74.9%	74.2%
Securities available for sale	14.7%	15.3%
Interest-bearing deposits in other banks	1.5%	1.9%
Other noninterest-earning assets	8.9%	8.6%
Total	100.0%	100.0%
Average noninterest-bearing deposits to average deposits	22.8%	23.3%
Average loans to average deposits	91.1%	91.7%

Our primary source of funds is deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future. Our average loans increased 31.8% for the six months ended June 30, 2019 compared to the same period in 2018, primarily due to the acquisition of RSBI and organic growth. We predominantly invest excess deposits in overnight deposits with the Federal Reserve, securities, interest-bearing deposits at other banks or other short-term liquid investments until needed to fund loan growth. Our securities portfolio had a weighted average life of 4.31 years and an effective duration of 41.65 months as of June 30, 2019. As of December 31, 2018, our securities portfolio had a weighted average life of 4.50 years and an effective duration of 44.69 months.

As of June 30, 2019, we had outstanding $329.7 million in commitments to extend credit and $22.9 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2018, we had outstanding $322.5 million in commitments to extend credit and $11.5 million in commitments associated with outstanding standby and commercial letters of credit. Because commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of June 30, 2019 and December 31, 2018, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature. As of June 30, 2019, we had cash and cash equivalents of $64.0 million compared to $96.1 million as of December 31, 2018.

Capital Resources

Total shareholders' equity increased to $277.5 million as of June 30, 2019, compared to $260.1 million as of December 31, 2018, an increase of $17.4 million, or 6.7%. This increase was primarily due to $12.5 million in net income and a $5.7 million change in unrealized gains (losses) on our investment portfolio, offset with $2.4 million in paid dividends.

On July 23, 2019, our Board of Directors (the "Board") declared a quarterly dividend based upon our financial performance for the three months ended June 30, 2019 in the amount of $0.10 per share to the common shareholders of record as of August 15, 2019. The dividend is to be paid on August 31, 2019, or as soon as practicable thereafter.

The declaration and payment of dividends to our shareholders, as well as the amounts thereof, are subject to the discretion of the Board and depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board. As a bank holding company, our ability to pay dividends is largely dependent upon the receipt of dividends from our subsidiary, Business First Bank. There can be no assurance that we will declare and pay any dividends to our shareholders.

Capital management consists of providing equity to support current and future operations. Banking regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. We are subject to regulatory capital requirements at the bank holding company and bank levels. As of June 30, 2019 and December 31, 2018, we and Business First Bank were in compliance with all applicable regulatory capital requirements, and Business First Bank was classified as "well-capitalized," for purposes of prompt corrective action regulations. As we employ our capital and continue to grow our operations, our regulatory capital levels may decrease depending on our level of earnings. However, we expect to monitor and control our growth in order to remain in compliance with all applicable regulatory capital standards applicable to us.

The following table presents the actual capital amounts and regulatory capital ratios for us and Business First Bank as of the dates indicated.

	As of June 30, 2019 (Unaudited)		As of December 31, 2018	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Business First Bancshares, Inc. (Consolidated)				
Total capital (to risk weighted assets)	$ 256,102	13.69%	$ 242,144	13.91%
Tier 1 capital (to risk weighted assets)	219,499	11.73%	205,924	11.83%
Common Equity Tier 1 capital (to risk weighted assets)	219,499	11.73%	205,924	11.83%
Tier 1 Leverage capital (to average assets)	219,499	10.74%	205,924	11.66%
Business First Bank				
Total capital (to risk weighted assets)	$ 240,566	12.87%	$ 224,356	12.90%
Tier 1 capital (to risk weighted assets)	228,963	12.25%	213,136	12.26%
Common Equity Tier 1 capital (to risk weighted assets)	228,963	12.25%	213,136	12.26%
Tier 1 Leverage capital (to average assets)	228,963	11.21%	213,136	12.08%

Long Term Debt

For information on our borrowings for the subordinated debt, please refer to *"Borrowings."*

Contractual Obligations

The following tables summarize contractual obligations and other commitments to make future payments as of June 30, 2019 and December 31, 2018 (other than non-maturity deposit obligations), which consist of future cash payments associated with our contractual obligations pursuant to our FHLB short term advances, subordinated debt, and non-cancelable future operating leases. Payments related to leases are based on actual payments specified in underlying contracts. Advances from the FHLB totaled approximately $108.0 million and $55.0 million at June 30, 2019 and December 31, 2018, respectively. As of June 30, 2019 and December 31, 2018, the FHLB short term advances were collateralized by a blanket floating lien on certain securities and loans, had a weighted average stated rate of 2.14% and 2.47%, respectively, and maturing within five years. The subordinated debt agreement totaled $25.0 million at both June 30, 2019 and December 31, 2018. This subordinated debt was secured by a pledge of and security interest in the common stock of our wholly-owned subsidiary, Business First Bank, bearing interest at a fixed-to-floating rate of 6.75%, and maturing in 2033.

	As of June 30, 2019				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands) (Unaudited)				
Non-cancelable future operating leases	$ 1,867	$ 2,934	$ 2,366	$ 5,804	$ 12,971
Time deposits	368,657	189,038	19,363	—	577,058
Subordinated debt	—	—	—	25,000	25,000
Advances from FHLB	25,000	30,000	53,000	—	108,000
Securities sold under agreements to repurchase	16,096	—	—	—	16,096
Standby and commercial letters of credit	22,278	671	—	—	22,949
Commitments to extend credit	186,882	95,057	21,780	25,936	329,655
Total	$ 620,780	$ 317,700	$ 96,509	$ 56,740	$ 1,091,729

	As of December 31, 2018				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Non-cancelable future operating leases	$ 2,366	$ 3,087	$ 2,294	$ 4,751	$ 12,498
Time deposits	374,612	166,212	30,286	—	571,110
Subordinated debt	—	—	—	25,000	25,000
Advances from FHLB	25,000	—	30,000	—	55,000
Securities sold under agreements to repurchase	12,229	—	—	—	12,229
Standby and commercial letters of credit	8,691	2,816	—	—	11,507
Commitments to extend credit	171,113	113,441	16,696	21,216	322,466
Total	$ 594,011	$ 285,556	$ 79,276	$ 50,967	$ 1,009,810

Off-Balance Sheet Items

In the normal course of business, we enter into various transactions which, in accordance with generally accepted accounting principles, or GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby and commercial letters of credit which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

Our commitments associated with outstanding standby and commercial letters of credit and commitments to extend credit expiring by period as of the dates indicated are summarized below. Because commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

	As of June 30, 2019				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands) (Unaudited)				
Standby and commercial letters of credit	$ 22,278	$ 671	$ —	$ —	$ 22,949
Commitments to extend credit	186,882	95,057	21,780	25,936	329,655
Total	$ 209,160	$ 95,728	$ 21,780	$ 25,936	$ 352,604

	As of December 31, 2018				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Standby and commercial letters of credit	$ 8,691	$ 2,816	$ —	$ —	$ 11,507
Commitments to extend credit	171,113	113,441	16,696	21,216	322,466
Total	$ 179,804	$ 116,257	$ 16,696	$ 21,216	$ 333,973

Standby and commercial letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, we have rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and/or marketable securities. The credit risk to us in issuing letters of credit is essentially the same as that involved in extending loan facilities to our customers.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by us, upon extension of credit, is based on management's credit evaluation of the customer.

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset liability and funds management policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We manage our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. We do not enter into instruments such as leveraged derivatives, interest rate swaps, financial options, financial futures contracts or forward delivery contracts for the purpose of reducing interest rate risk. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the asset-liability committee of Business First Bank, in accordance with policies approved by our board of directors. The committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk which include an analysis of relationships between interest-earning assets and interest-bearing liabilities, and an interest rate shock simulation model.

We use interest rate risk simulation models and shock analysis to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. Contractual maturities and re-pricing opportunities of loans are incorporated in the model as are prepayment assumptions, maturity data and call options within the investment portfolio. Average lives of non-maturity deposit accounts are based on standard regulatory decay assumptions and are also incorporated into the model. Model assumptions are revised and updated as more accurate information becomes available. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and the application and timing of various management strategies.

On at least a quarterly basis, we run two simulation models including a static balance sheet and dynamic growth balance sheet. These models test the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Under the static and dynamic growth models, rates are shocked instantaneously based upon parallel and non-parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Non-parallel simulation involves analysis of interest income and expense under various changes in the shape of the yield curve. Internal policy regarding interest rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net interest income at risk for the subsequent one-year period should not decline by more than 5.0% for a 100 basis point shift, 10% for a 200 basis point shift, and 12.5% for a 300 basis point shift. Internal policy regarding interest rate simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated fair value of equity at risk for the subsequent one-year period should not decline by more than 10.00% for a 100 basis point shift, 15.00% for a 200 basis point shift, and 25.00% for a 300 basis point shift.

The following table summarizes the simulated change in net interest income and fair value of equity over a 12-month horizon as of the dates indicated:

	As of June 30, 2019		As of December 31, 2018	
Change in Interest Rates (Basis Points)	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**
+300	8.00%	(1.45%)	5.20%	(2.07%)
+200	5.30%	(0.71%)	3.10%	(1.24%)
+100	2.60%	(0.26%)	1.10%	(0.64%)
Base	0.00%	0.00%	0.00%	0.00%
-100	(4.20%)	(0.61%)	(4.40%)	(0.29%)

The results are primarily due to the behavior of demand, money market and savings deposits during such rate fluctuations. We have found that, historically, interest rates on these deposits change more slowly than changes in the discount and federal funds rates. This assumption is incorporated into the simulation model and is generally not fully reflected in a gap analysis.

Impact of Inflation

Our consolidated financial statements and related notes included elsewhere in this statement have been prepared in accordance with GAAP. These require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

Unlike many industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates may not necessarily move in the same direction or in the same magnitude as the prices of goods and services. However, other operating expenses do reflect general levels of inflation.

Non-GAAP Financial Measures

Our accounting and reporting policies conform to GAAP, and the prevailing practices in the banking industry. However, we also evaluate our performance based on certain additional non-GAAP financial measures. We classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP as in effect from time to time in the United States in our statements of income, balance sheets or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measures that are not non-GAAP financial measures or both.

This discussion and analysis section includes certain non-GAAP financial measures (e.g., referenced as “core” or “tangible”) intended to supplement, not substitute for, comparable GAAP measures. These measures typically adjust income available to common shareholders for certain significant activities or transactions that in management’s opinion can distort period-to-period comparisons of Business First’s performance. Transactions that are typically excluded from non-GAAP measures include realized and unrealized gains/losses on former bank premises and equipment, impaired loan sales, and acquisition-related expenses (including, but not limited to, legal costs, system conversion costs, severance and retention payments, etc.). The measures also typically adjust goodwill and intangible assets from book value and shareholders’ equity.

Management believes presentations of these non-GAAP financial measures provide useful supplemental information that is essential to a proper understanding of the operating results of the Company's core business. These non-GAAP disclosures are not necessarily comparable to non-GAAP measures that may be presented by other companies. You should understand how such other banking organizations calculate their financial metrics or with names similar to the non-GAAP financial measures we have discussed in this statement when comparing such non-GAAP financial measures.

Core Net Income. Core net income, which excludes noncore income and expenses, for the three months ended June 30, 2019 was $6.6 million, or $0.48 per diluted share, compared to core net income of $4.1 million, or $0.37 per diluted share, for the three months ended June 30, 2018. As adjusted, core return on average assets and core return on average equity, in each case on an annualized basis, were 1.26% and 9.77% for the three months ended June 30, 2019, compared to 1.00% and 8.69% for the three months ended June 30, 2018. Core net income, which excludes noncore income and expenses, for the six months ended June 30, 2019 was $12.2 million, or $0.89 per diluted share, compared to core net income of $7.6 million, or $0.70 per diluted share, for the six months ended June 30, 2018. As adjusted, core return on average assets and core return on average equity, in each case on an annualized basis, were 1.17% and 9.18% for the six months ended June 30, 2019, compared to 0.94% and 8.33% for the six months ended June 30, 2018. Notable noncore events impacting earnings for the three months ended June 30, 2019 include noninterest income of $91,000 in gains on the sale of impaired credits, $58,000 in gains on the sale of securities, $593,000 in gains on the sale of a banking center and noninterest expense of $436,000 related to acquisition-related activities (including, but not limited to, severance and retention, system conversion, legal costs, etc.). Notable noncore events impacting earnings for the six months ended June 30, 2019 include the same noninterest income impact as the three months ended June 30, 2019 and additional noninterest expense of $386,000 related to acquisition-related activities (including, but not limited to, severance and retention, system conversion, legal costs, etc.). Notable noncore events impacting earnings for the quarter for the three months ended June 30, 2018 include noninterest expense of $415,000 related to acquisition-related activities (including, but not limited to, severance and retention, system conversion, legal costs, etc.) and $118,000 associated with share awards granted to all nonexecutives in connection with Business First Bancshares, Inc.'s listing on NASDAQ. Notable noncore events impacting earnings for the six months ended June 30, 2018 include additional noninterest expense of $512,000 related to acquisition-related activities (including, but not limited to, severance and retention, system conversion, legal costs, etc.).

	For the Three Months Ended June 30, (Unaudited)		For the Six Months Ended June 30, (Unaudited)	
	2019	2018	2019	2018
	(Dollars in thousands, except per share data)			
Core Net Income				
Net income	$ 6,843	$ 3,638	$ 12,502	$ 6,746
Adjustments: [1]				
Income				
Sale of Impaired Credit	(91)	—	(91)	—
Tax impact	19	—	19	—
(Gains) Losses on Sale of Securities	(58)	—	(58)	—
Tax impact	12	—	12	—
(Gains) Losses on Sale of Banking Center	(593)	—	(593)	—
Tax impact	125	—	125	—
Expense				
Employee Share Awards – NASDAQ Listing	—	118	—	118
Tax impact	—	(25)	—	(25)
Acquisition-related expenses	436	415	386	927
Tax impact	(91)	(68)	(75)	(123)
Core net income	$ 6,602	$ 4,078	$ 12,227	$ 7,643
Average common shares outstanding	13,361,482	10,607,369	13,324,725	10,421,185
Average diluted shares outstanding	13,740,937	11,064,638	13,704,180	10,878,454
Core earnings per share - basic	$ 0.49	$ 0.38	$ 0.92	$ 0.73
Core earnings per share - diluted	$ 0.48	$ 0.37	$ 0.89	$ 0.70
Total quarterly average assets	2,102,692	1,624,195	2,089,188	1,619,474
Total quarterly average equity	270,262	187,764	266,493	183,455
Core return on average assets	1.26%	1.00%	1.17%	0.94%
Core return on average equity	9.77%	8.69%	9.18%	8.33%

(1) Tax rates, exclusive of certain nondeductible acquisition-related expenses, utilized were 21% for both 2019 and 2018. These rates approximated the marginal tax rates for the applicable periods.

Tangible Book Value Per Common Share. Tangible book value per common share is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate (1) tangible common equity as shareholders' equity less goodwill and core deposit intangible and other intangible assets, net of accumulated amortization, and (2) tangible book value per common share as tangible common equity divided by shares of common stock outstanding. The most directly comparable GAAP financial measure for tangible book value per common share is book value per common share.

The following table reconciles, as of the dates set forth below, total shareholders' equity to tangible common equity and presents tangible book value per common share compared to book value per common share:

	As of June 30, 2019 (Unaudited)	As of December 31, 2018
	(Dollars in thousands, except per share data)	
Tangible Common Equity		
Total shareholders' equity	$ 277,469	$ 260,058
Adjustments:		
Goodwill	(48,503)	(49,488)
Core deposit and other intangibles	(7,139)	(7,885)
Total tangible common equity	$ 221,827	$ 202,685
Common shares outstanding(1)	13,361,482	13,213,280
Book value per common share(1)	$ 20.77	$ 19.68
Tangible book value per common share(1)	16.60	15.34

(1) Excludes the dilutive effect, if any, of 754,027 and 867,705 shares of common stock issuable upon exercise of outstanding stock options and warrants as of June 30, 2019 and December 31, 2018, respectively.

Tangible Common Equity to Tangible Assets. Tangible common equity to tangible assets is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate tangible common equity, as described above, and tangible assets as total assets less goodwill, core deposit intangible and other intangible assets, net of accumulated amortization. The most directly comparable GAAP financial measure for tangible common equity to tangible assets is total common shareholders' equity to total assets.

The following table reconciles, as of the dates set forth below, total shareholders' equity to tangible common equity and total assets to tangible assets:

	As of June 30, 2019 (Unaudited)	As of December 31, 2018
	(Dollars in thousands, except per share data)	
Tangible Common Equity		
Total shareholders' equity	$ 277,469	$ 260,058
Adjustments:		
Goodwill	(48,503)	(49,488)
Core deposit and other intangibles	(7,139)	(7,885)
Total tangible common equity	$ 221,827	$ 202,685
Tangible Assets		
Total assets	$ 2,153,608	$ 2,094,896
Adjustments:		
Goodwill	(48,503)	(49,488)
Core deposit and other intangibles	(7,139)	(7,885)
Total tangible assets	$ 2,097,966	$ 2,037,523
Common Equity to Total Assets	12.9%	12.4%
Tangible Common Equity to Tangible Assets	10.6	9.9

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Risk identification and management are essential elements for the successful management of our business. In the normal course of business, we are subject to various types of risk, including interest rate, credit, and liquidity risk. We control and monitor these risks with policies, procedures, and various levels of managerial and board oversight. Our objective is to optimize profitability while managing and controlling risk within board approved policy limits. Interest rate risk is the sensitivity of net interest income and the market value of financial instruments to the magnitude, direction, and frequency of changes in interest rates. Interest rate risk results from various repricing frequencies and the maturity structure of assets and liabilities. We use our asset liability management policy to control and manage interest rate risk. See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Sensibility and Market Risk" for additional discussion of interest rate risk.

Liquidity risk represents the inability to generate cash or otherwise obtain funds at reasonable rates to satisfy commitments to borrowers, as well as, the obligations to depositors. We use our asset liability management policy and contingency funding plan to control and manage liquidity risk.

Credit risk represents the possibility that a customer may not perform in accordance with contractual terms. Credit risk results from extending credit to customers, purchasing securities, and entering into certain off-balance sheet loan funding commitments. Our primary credit risk is directly related to our loan portfolio. We use our credit policy and disciplined approach to evaluate the adequacy of our allowance for loan losses to control and manage credit risk. Our investment policy limits the degree of the amount of credit risk that we may assume in our investment portfolio. Our principal financial market risks are liquidity risks and exposures to interest rate movements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a – 15(e) and 15d – 15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Based on such evaluation, our principal executive officer and principal financial officer concluded our disclosure controls and procedures were effective as of the end of the period covered by this Report to provide reasonable assurance that the information we are required to disclose in reports that are filed or furnished under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, including to ensure that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The effectiveness of our or any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. As a result, we cannot assure you that our disclosure controls and procedures will detect all errors or fraud.

Changes in Internal Controls over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are a party to claims and legal proceedings arising in the ordinary course of business. Management evaluates our exposure to these claims and proceedings individually and in the aggregate, and provides for potential losses on such litigation if the amount of the loss is estimable and the loss is probable. We are not currently involved in any pending legal proceedings other than routine, nonmaterial proceedings occurring in the ordinary course of business.

Item 1A.Risk Factors

In addition to the other information set forth in this Report, we refer you to Item 1A. "Risk Factors" of our Annual Report on Form 10-K for December 31, 2018 filed with the SEC.

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

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Number	Description
3.1	Amended and Restated Articles of Incorporation of Business First Bancshares, Inc., adopted September 28, 2017 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on October 2, 2017 (File No. 333-200112)).
3.2	Amended and Restated Bylaws of Business First Bancshares, Inc., adopted August 23, 2017 (incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2017 filed by Business First Bancshares, Inc. on November 9, 2017 (File No. 333-200112)).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).
4.2	Form of 6.75% Fixed-to-Floating Subordinated Note due 2033 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on December 19, 2018 (File No. 001-38447)).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* Filed herewith.

SIGNATURES

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

	BUSINESS FIRST BANCSHARES, INC.
August 8, 2019	/s/ David R. Melville, III
	David R. Melville, III President and Chief Executive Officer
August 8, 2019	/s/ Gregory Robertson
	Gregory Robertson Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, David R. Melville, III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (this "Report") of Business First Bancshares, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 8, 2019

/s/ David R. Melville, III
David R. Melville, III
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Gregory Robertson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (this “Report”) of Business First Bancshares, Inc.;

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

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

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:

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

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

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

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

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

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

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

Date: August 8, 2019

/s/ Gregory Robertson
Gregory Robertson
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO RULE 13A-14(B) 18 U.S.C. SECTION 1350,

As adopted pursuant to

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Business First Bancshares, Inc. (“Business First”) for the three month period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, David R. Melville, III, as President and Chief Executive Officer of Business First, and Gregory Robertson, as Chief Financial Officer of Business First, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

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

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Business First, as of, and for the period covered by the Report.

Date: August 8, 2019

/s/ David R. Melville, III
David R. Melville, III
President and Chief Executive Officer

/s/ Gregory Robertson
Gregory Robertson
Chief Financial Officer