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, 2017

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	**20-5340628**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
500 Laurel Street, Suite 101 **Baton Rouge, Louisiana**	**70801**
(Address of principal executive offices)	**(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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	☐	(Do not check if a smaller reporting company)	
		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 ☒

As of August 4, 2017, the issuer has outstanding 6,932,570 shares of common stock, par value $1.00 per share.

BUSINESS FIRST BANCSHARES, INC.

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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, 2017 (Unaudited)	December 31, 2016
ASSETS		
Cash and Due from Banks	$ 45,204	$ 42,173
Federal Funds Sold	7,090	2,556
Securities Available for Sale, at Fair Values	192,058	198,342
Mortgage Loans Held for Sale	167	180
Loans and Lease Receivable, Net of Allowance for Loan Losses of $9,177 at June 30, 2017 and $8,162 at December 31, 2016	865,329	802,789
Premises and Equipment, Net	9,132	9,281
Accrued Interest Receivable	3,574	3,384
Other Equity Securities	7,065	6,120
Other Real Estate Owned	1,227	1,187
Cash Value of Life Insurance	22,876	22,567
Goodwill	6,824	6,824
Core Deposit Intangible	2,141	2,279
Other Assets	6,399	8,159
Total Assets	$ 1,169,086	$ 1,105,841
LIABILITIES		
Deposits:		
Noninterest Bearing	$ 243,745	$ 223,705
Interest Bearing	728,271	709,090
Total Deposits	972,016	932,795
Securities Sold Under Agreements to Repurchase	2,533	2,720
Short Term Borrowings	862	862
Long Term Borrowings	3,000	3,000
Federal Home Loan Bank Borrowings	66,007	47,064
Accrued Interest Payable	821	920
Other Liabilities	5,034	4,921
Total Liabilities	1,050,273	992,282
SHAREHOLDERS' EQUITY		
Common Stock, $1.00 Par Value; 10,000,000 Shares Authorized; 6,932,570 and 6,916,673 Shares Issued and Outstanding at June 30, 2017 and December 31, 2016, respectively	6,933	6,917
Additional Paid-in Capital	85,066	85,133
Retained Earnings	27,115	23,839
Accumulated Other Comprehensive Loss	(301)	(2,330)
Total Shareholders' Equity	118,813	113,559
Total Liabilities and Shareholders' Equity	$ 1,169,086	$ 1,105,841

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,		For The Six Months Ended June 30,	
	2017	2016	2017	2016
Interest Income:				
Interest and Fees on Loans	$ 12,398	$ 9,570	$ 23,539	$ 19,267
Interest and Dividends on Securities	972	929	1,919	1,903
Interest on Federal Funds Sold and Due From Banks	30	77	47	118
Total Interest Income	13,400	10,576	25,505	21,288
Interest Expense:				
Interest on Deposits	1,501	1,317	2,849	2,424
Interest on Borrowings	209	158	406	332
Total Interest Expense	1,710	1,475	3,255	2,756
Net Interest Income	11,690	9,101	22,250	18,532
Provision for Loan Losses	1,305	150	1,660	820
Net Interest Income after Provision for Loan Losses	10,385	8,951	20,590	17,712
Other Income:				
Service Charges on Deposit Accounts	525	489	1,037	983
Gain on Sales of Securities	-	56	-	231
Other Income	1,075	725	1,867	1,497
Total Other Income	1,600	1,270	2,904	2,711
Other Expenses:				
Salaries and Employee Benefits	5,397	5,027	10,381	9,723
Occupancy and Equipment Expense	1,191	1,021	2,359	2,124
Other Expenses	2,526	3,102	5,140	5,704
Total Other Expenses	9,114	9,150	17,880	17,551
Income Before Income Taxes	2,871	1,071	5,614	2,872
Provision for Income Taxes	819	230	1,586	627
Net Income	$ 2,052	$ 841	$ 4,028	$ 2,245
Earnings Per Share:				
Basic	$ 0.30	$ 0.12	$ 0.58	$ 0.32
Diluted	$ 0.28	$ 0.11	$ 0.56	$ 0.31

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,	
	2017	2016	2017	2016
Consolidated Net Income	$ 2,052	$ 841	$ 4,028	$ 2,245
Other Comprehensive Income:				
Unrealized Gain on Investment Securities	1,372	831	3,075	2,201
Reclassification Adjustment for Gains included in Net Income	-	56	-	231
Income Tax Effect	(467)	(302)	(1,046)	(827)
Other Comprehensive Income	905	585	2,029	1,605
Consolidated Comprehensive Income	$ 2,957	$ 1,426	$ 6,057	$ 3,850

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, 2017 AND 2016
(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, 2015	$ 7,036	$ 85,913	$ 20,289	$ (789)	$ 112,449
Comprehensive Income:					
Net Income	-	-	2,245	-	2,245
Other Comprehensive Income	-	-	-	1,605	1,605
Cash Dividends Declared, $0.05 Per Share	-	-	(352)	-	(352)
Stock Based Compensation Cost	-	156	-	-	156
Exercise of Stock Warrants	1	14	-	-	15
Balances at June 30, 2016	$ 7,037	$ 86,083	$ 22,182	$ 816	$ 116,118
Balances at December 31, 2016	$ 6,917	$ 85,133	$ 23,839	$ (2,330)	$ 113,559
Comprehensive Income:					
Net Income	-	-	4,028	-	4,028
Other Comprehensive Income	-	-	-	2,029	2,029
Cash Dividends Declared, $0.11 Per Share	-	-	(761)	-	(761)
Stock Based Compensation Cost	18	(27)	-	-	(9)
Stock Repurchase	(2)	(40)	9	-	(33)
Balances at June 30, 2017	$ 6,933	$ 85,066	$ 27,115	$ (301)	$ 118,813

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,	
	2017	2016
Cash Flows From Operating Activities:		
Consolidated Net Income	$ 4,028	$ 2,245
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Provision for Loan Losses	1,660	820
Depreciation and Amortization	630	636
Amortization of Purchase Accounting Valuations	(3,378)	(936)
Noncash Compensation Expense	(9)	156
Net Amortization of Securities	917	928
Gain on Sales of Securities	-	(231)
Noncash (Income) Loss on Other Equity Securities	(208)	33
Gain on Sale of Premises and Equipment	-	(24)
Gain on Sale of Other Real Estate Owned, Net of Writedowns	(4)	(3)
Increase in Cash Value of Life Insurance	(309)	(490)
Provision for Deferred Income Taxes	833	62
Changes in Assets and Liabilities:		
Increase in Accrued Interest Receivable	(190)	(122)
(Increase) Decrease in Other Assets	(128)	476
Increase (Decrease) in Accrued Interest Payable	(99)	160
Increase in Other Liabilities	113	731
Net Cash Provided by Operating Activities	3,856	4,441
Cash Flows From Investing Activities:		
Purchases of Securities Available for Sale	(4,596)	(35,881)
Proceeds from Maturities / Sales of Securities Available for Sale	2,859	29,836
Proceeds from Paydowns of Securities Available for Sale	10,179	11,109
Purchases of Other Equity Securities	(873)	(866)
Redemption of Other Equity Securities	136	2
Life Insurance Proceeds	-	560
Net Increase in Loans	(61,252)	(25,799)
Proceeds from Sale of Premises and Equipment	-	68
Purchases of Premises and Equipment	(306)	(665)
Proceeds from Sales of Other Real Estate	13	584
Improvements to Other Real Estate	-	(102)
Consideration Settlement to Former AGFC Shareholders	-	(3,448)
Net Increase in Federal Funds Sold	(4,534)	(25,792)
Net Cash Used in Investing Activities	(58,374)	(50,394)

(CONTINUED)

	For The Six Months Ended June 30,	
	2017	2016
Cash Flows From Financing Activities:		
Net Increase in Deposits	39,221	94,422
Net Increase (Decrease) in Securities Sold Under Agreements to Repurchase	(187)	106
Net Advances (Repayments) on Federal Home Loan Bank Borrowings	19,309	(669)
Repurchase of Common Stock	(33)	-
Proceeds from Exercise of Stock Warrants	-	15
Payment of Dividends on Common Stock	(761)	(352)
Net Cash Provided by Financing Activities	57,549	93,522
Net Increase in Cash and Cash Equivalents	3,031	47,569
Cash and Cash Equivalents at Beginning of Period	42,173	40,911
Cash and Cash Equivalents at End of Period	$ 45,204	$ 88,480
Supplemental Disclosures for Cash Flow Information:		
Cash Payments for:		
Interest on Deposits	$ 2,951	$ 2,238
Interest on Borrowings	$ 403	$ 358
Income Tax Payments	$ 900	$ -
Supplemental Schedule for Noncash Investing and Financing Activities:		
Change in the Unrealized Gain on Securities Available for Sale	$ 3,075	$ 2,432
Change in Deferred Tax Effect on the Unrealized Gain on Securities Available for Sale	$ (1,046)	$ (827)
Transfer of Loans to Other Real Estate	$ 215	$ 365
Transfer of Other Real Estate to Premises and Equipment	$ 175	$ -

The accompanying notes are an integral part of these 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 its wholly-owned subsidiaries, Business First Insurance, LLC and American Gateway Insurance Agency, LLC. The Bank operates out of nineteen offices, including sixteen full service banking centers, two loan production offices, and one wealth solutions office in markets across Louisiana and Texas. As a state bank, it is subject to regulation by the Louisiana Office of Financial Institutions 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.

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 2017. These reclassifications have no effect on previously reported net income.

Note 3 – Mergers and Acquisitions –

After the close of business on March 31, 2015, the Company merged with American Gateway Financial Corporation ("AGFC"), parent bank holding company for American Gateway Bank, pursuant to which the operations of AGFC merged with the Company. Prior to the merger, AGFC was a full service bank with ten branches located in the Baton Rouge, Louisiana metro region. Shareholders of AGFC received merger consideration of $10.00 in cash and 11.88 shares of the Company's common stock in exchange for each share of AGFC common stock, representing an aggregate purchase price of $47.9 million. Including the effect of purchase accounting adjustments, assets acquired from AGFC totaled $371.5 million, which included loans of $143.2 million, securities available for sale of $108.4 million, and cash of $98.5 million. The Company also recorded a core deposit intangible asset of $2.8 million and goodwill of $6.8 million relating to the acquisition. The Company assumed liabilities totaling $330.5 million, which included $283.3 million in deposits, $41.2 million in Federal Home Loan Bank ("FHLB") advances, and $4.3 million in securities sold under agreements to repurchase.

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,	
	2017	2016	2017	2016
	(Dollars in thousands, except per share data)			
Numerator:				
Net Income Available to Common Shares	$ 2,052	$ 841	$ 4,028	$ 2,245
Denominator:				
Weighted Average Common Shares Outstanding	6,932,570	7,037,413	6,923,692	7,037,207
Dilutive Effect of Stock Options and Warrants	271,902	311,308	271,902	311,308
Weighted Average Dilutive Common Shares	7,204,472	7,348,721	7,195,594	7,348,515
Basic Earnings Per Common Share From Net Income Available to Common Shares	$ 0.30	$ 0.12	$ 0.58	$ 0.32
Diluted Earnings Per Common Share From Net Income Available to Common Shares	$ 0.28	$ 0.11	$ 0.56	$ 0.31

Note 5 – Securities –

The amortized cost and fair values of securities available for sale as of June 30, 2017 and December 31, 2016 are summarized as follows:

	June 30, 2017 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$ 8,380	$ 57	$ 29	$ 8,408
Corporate Securities	13,134	71	15	13,190
Mortgage-Backed Securities	91,274	9	1,005	90,278
Municipal Securities	78,906	771	168	79,509
Other Securities	820	-	147	673
Total Securities Available for Sale	$ 192,514	$ 908	$ 1,364	$ 192,058

	December 31, 2016 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$ 7,580	$ 36	$ 50	$ 7,566
Corporate Securities	11,148	31	52	11,127
Mortgage-Backed Securities	101,766	20	2,414	99,372
Municipal Securities	80,559	210	1,133	79,636
Other Securities	820	-	179	641
Total Securities Available for Sale	$ 201,873	$ 297	$ 3,828	$ 198,342

The following tables present a summary of securities with gross unrealized losses and fair values at June 30, 2017 and December 31, 2016, 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, 2017					
	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	$ 3,005	$ 29	$ -	$ -	$ 3,005	$ 29
Corporate Securities	2,023	14	2,498	1	4,521	15
Mortgage-Backed Securities	72,199	789	10,899	216	83,098	1,005
Municipal Securities	20,544	155	1,385	13	21,929	168
Other Securities	-	-	673	147	673	147
Total Securities Available for Sale	$ 97,771	$ 987	$ 15,455	$ 377	$ 113,226	$ 1,364

	December 31, 2016					
	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	$ 4,535	$ 50	$ -	$ -	$ 4,535	$ 50
Corporate Securities	2,010	31	4,515	21	6,525	52
Mortgage-Backed Securities	86,091	1,974	9,885	440	95,976	2,414
Municipal Securities	54,533	1,128	207	5	54,740	1,133
Other Securities	-	-	641	179	641	179
Total Securities Available for Sale	$ 147,169	$ 3,183	$ 15,248	$ 645	$ 162,417	$ 3,828

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, 2017 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	$ 8,417	$ 8,429
One to Five Years	47,225	47,515
Over Five to Ten Years	63,958	63,888
Over Ten Years	72,914	72,226
Total Securities Available for Sale	$ 192,514	$ 192,058

Note 6 – Loans and the Allowance for Loan Losses –

Loans receivable at June 30, 2017 and December 31, 2016 are summarized as follows:

	June 30, 2017	December 31, 2016
	(Dollars in thousands)	
Real estate loans:		
Construction and land	$ 112,199	$ 94,426
Farmland	10,524	9,217
1-4 family residential	139,398	129,052
Multi-family residential	23,039	22,737
Nonfarm nonresidential	304,278	298,057
Commercial	238,924	213,120
Consumer	46,144	44,342
Total loans held for investment	874,506	810,951
Less:		
Allowance for loan losses	(9,177)	(8,162)
Net loans	$ 865,329	$ 802,789

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, 2017 and December 31, 2016.

Net deferred loan origination fees were $1.2 million and $761,000 at June 30, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, overdrafts of $155,000 and $232,000, respectively, have been reclassified to loans.

The Bank is the lead lender on participations sold, without recourse, to other financial institutions which are not included in the consolidated balance sheets. The unpaid principal balances of mortgages and other loans serviced for others were approximately $64.3 million and $55.5 million at June 30, 2017 and December 31, 2016, respectively.

The Bank grants loans and extensions of credit to individuals and a variety of businesses and corporations in markets across 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.

Acquired loans are those associated with our acquisition of AGFC. These loans 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, 2017 includes $54.3 million of loans acquired in an acquisition that were recorded at fair value as of the acquisition date. Included in the acquired balances at June 30, 2017 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 $749,000 and acquired performing loans not accounted for under ASC 310-30 totaling $55.6 million with a related purchase discount of $2.0 million.

Total loans held for investment at December 31, 2016 includes $65.3 million of loans acquired in an acquisition that were recorded at fair value as of the acquisition date. Included in the acquired balances at December 31, 2016 were acquired impaired loans with a net carrying amount of $1.8 million and acquired performing loans totaling $65.9 million with a related purchase discount of $2.4 million.

The following tables set forth, as of June 30, 2017 and December 31, 2016, 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, 2017							
	(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	$ 933	$ 75	$ 1,228	$ 172	$ 2,314	$ 3,039	$ 401	$ 8,162
Charge-offs	(2)	-	(20)	-	(617)	(53)	(30)	(722)
Recoveries	1	-	14	-	1	30	31	77
Provision	255	13	320	13	745	326	(12)	1,660
Ending Balance	$ 1,187	$ 88	$ 1,542	$ 185	$ 2,443	$ 3,342	$ 390	$ 9,177
Ending Balance:								
Individually evaluated for impairment	$ 22	$ -	$ 416	$ -	$ 112	$ 482	$ -	$ 1,032
Collectively evaluated for impairment	$ 1,165	$ 88	$ 1,092	$ 185	$ 2,331	$ 2,860	$ 390	$ 8,111
Purchased Credit Impaired (1)	$ -	$ -	$ 34	$ -	$ -	$ -	$ -	$ 34
Loans receivable:								
Ending Balance	$ 112,199	$ 10,524	$ 139,398	$ 23,039	$ 304,278	$ 238,924	$ 46,144	$ 874,506
Ending Balance:								
Individually evaluated for impairment	$ 133	$ -	$ 2,916	$ -	$ 3,049	$ 4,927	$ 235	$ 11,260
Collectively evaluated for impairment	$ 112,053	$ 10,524	$ 136,270	$ 23,039	$ 300,705	$ 233,997	$ 45,909	$ 862,497
Purchased Credit Impaired (1)	$ 13	$ -	$ 212	$ -	$ 524	$ -	$ -	$ 749

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

	December 31, 2016							
	(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	$ 600	$ 30	$ 1,021	$ 101	$ 1,416	$ 3,618	$ 458	$ 7,244
Charge-offs	(484)	-	(162)	-	(473)	(667)	(3)	(1,789)
Recoveries	10	-	140	-	1,258	33	46	1,487
Provision	807	45	229	71	113	55	(100)	1,220
Ending Balance	$ 933	$ 75	$ 1,228	$ 172	$ 2,314	$ 3,039	$ 401	$ 8,162
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ 252	$ -	$ 98	$ 501	$ 36	$ 887
Collectively evaluated for impairment	$ 933	$ 75	$ 943	$ 172	$ 2,216	$ 2,538	$ 365	$ 7,242
Purchased Credit Impaired (1)	$ -	$ -	$ 33	$ -	$ -	$ -	$ -	$ 33
Loans receivable:								
Ending Balance	$ 94,426	$ 9,217	$ 129,052	$ 22,737	$ 298,057	$ 213,120	$ 44,342	$ 810,951
Ending Balance:								
Individually evaluated for impairment	$ 143	$ -	$ 3,263	$ -	$ 1,073	$ 7,332	$ 198	$ 12,009
Collectively evaluated for impairment	$ 94,117	$ 9,217	$ 125,573	$ 22,737	$ 295,590	$ 205,788	$ 44,144	$ 797,166
Purchased Credit Impaired (1)	$ 166	$ -	$ 216	$ -	$ 1,394	$ -	$ -	$ 1,776

(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, 2017 and December 31, 2016, the credit quality indicators, disaggregated by class of loan, are as follows:

Credit Quality Indicators

	June 30, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
			(Dollars in thousands)		
Real Estate Loans:					
Construction and land	$ 109,643	$ 2,001	$ 409	$ 146	$ 112,199
Farmland	10,524	-	-	-	10,524
1-4 family residential	129,819	5,270	1,916	2,393	139,398
Multi-family residential	22,997	-	42	-	23,039
Nonfarm nonresidential	288,548	10,561	1,765	3,404	304,278
Commercial	209,394	21,211	3,392	4,927	238,924
Consumer	45,213	673	23	235	46,144
Total	$ 816,138	$ 39,716	$ 7,547	$ 11,105	$ 874,506

	December 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
			(Dollars in thousands)		
Real Estate Loans:					
Construction and land	$ 92,951	$ 932	$ 300	$ 243	$ 94,426
Farmland	9,217	-	-	-	9,217
1-4 family residential	118,891	4,782	2,658	2,721	129,052
Multi-family residential	22,685	-	52	-	22,737
Nonfarm nonresidential	280,398	14,531	1,927	1,201	298,057
Commercial	186,197	16,783	7,377	2,763	213,120
Consumer	43,414	505	225	198	44,342
Total	$ 753,753	$ 37,533	$ 12,539	$ 7,126	$ 810,951

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.

The following tables reflect certain information with respect to the loan portfolio delinquencies by loan class and amount as of June 30, 2017 and December 31, 2016. All loans greater than 90 days past due are generally placed on non-accrual status.

Aged Analysis of Past Due Loans Receivable

	June 30, 2017 (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	$ 37	$ 4	$ 137	$ 178	$ 112,021	$ 112,199	$ -
Farmland	-	-	-	-	10,524	10,524	-
1-4 family residential	781	151	1,031	1,963	137,435	139,398	-
Multi-family residential	-	-	-	-	23,039	23,039	-
Nonfarm nonresidential	241	3,260	330	3,831	300,447	304,278	-
Commercial	2,690	-	3,682	6,372	232,552	238,924	55
Consumer	6	-	224	230	45,914	46,144	-
Total	$ 3,755	$ 3,415	$ 5,404	$ 12,574	$ 861,932	$ 874,506	$ 55

	December 31, 2016 (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	$ 465	$ -	$ 106	$ 571	$ 93,855	$ 94,426	$ -
Farmland	-	-	-	-	9,217	9,217	-
1-4 family residential	989	579	963	2,531	126,521	129,052	117
Multi-family residential	-	-	-	-	22,737	22,737	-
Nonfarm nonresidential	1,370	173	532	2,075	295,982	298,057	-
Commercial	45	372	262	679	212,441	213,120	51
Consumer	66	-	149	215	44,127	44,342	-
Total	$ 2,935	$ 1,124	$ 2,012	$ 6,071	$ 804,880	$ 810,951	$ 168

The following is a summary of information pertaining to impaired loans as of June 30, 2017 and December 31, 2016. 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 $57,000 and $138,000 for the six months ending June 30, 2017 and 2016, respectively.

	June 30, 2017			
	(Dollars in thousands)			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Real Estate Loans:				
Construction and land	$ 89	$ 89	$ 22	$ 60
Farmland	-	-	-	-
1-4 family residential	989	1,069	415	808
Multi-family residential	-	-	-	-
Nonfarm nonresidential	693	708	112	422
Other Loans:				
Commercial	596	617	483	487
Consumer	-	-	-	10
Total	$ 2,367	$ 2,483	$ 1,032	$ 1,787
With no allowance recorded:				
Real Estate Loans:				
Construction and land	$ 44	$ 54	$ -	$ 77
Farmland	-	-	-	-
1-4 family residential	1,927	2,290	-	2,309
Multi-family residential	-	-	-	-
Nonfarm nonresidential	2,356	2,406	-	2,009
Other Loans:				
Commercial	4,331	5,575	-	5,598
Consumer	235	266	-	124
Total	$ 8,893	$ 10,591	$ -	$ 10,117
Total Impaired Loans:				
Real Estate Loans:				
Construction and land	$ 133	$ 143	$ 22	$ 137
Farmland	-	-	-	-
1-4 family residential	2,916	3,359	415	3,117
Multi-family residential	-	-	-	-
Nonfarm nonresidential	3,049	3,114	112	2,431
Other Loans:				
Commercial	4,927	6,192	483	6,085
Consumer	235	266	-	134
Total	$ 11,260	$ 13,074	$ 1,032	$ 11,904

	December 31, 2016			
	(Dollars in thousands)			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Real Estate Loans:				
Construction and land	$ -	$ -	$ -	$ 655
Farmland	-	-	-	-
1-4 family residential	440	470	252	372
Multi-family residential	-	-	-	-
Nonfarm nonresidential	368	368	98	31
Other Loans:				
Commercial	695	709	501	1,252
Consumer	36	36	36	12
Total	$ 1,539	$ 1,583	$ 887	$ 2,322
With no allowance recorded:				
Real Estate Loans:				
Construction and land	$ 143	$ 152	$ -	$ 124
Farmland	-	-	-	-
1-4 family residential	2,823	3,276	-	3,296
Multi-family residential	-	-	-	-
Nonfarm nonresidential	705	729	-	3,730
Other Loans:				
Commercial	6,637	7,826	-	3,680
Consumer	162	162	-	43
Total	$ 10,470	$ 12,145	$ -	$ 10,873
Total Impaired Loans:				
Real Estate Loans:				
Construction and land	$ 143	$ 152	$ -	$ 779
Farmland	-	-	-	-
1-4 family residential	3,263	3,746	252	3,668
Multi-family residential	-	-	-	-
Nonfarm nonresidential	1,073	1,097	98	3,761
Other Loans:				
Commercial	7,332	8,535	501	4,932
Consumer	198	198	36	55
Total	$ 12,009	$ 13,728	$ 887	$ 13,195

The Company elected to account for certain loans acquired in the AGFC merger 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 merger and, as a result, no accretable yield was recognized at acquisition for the AGFC purchased impaired credits.

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, 2015	$ 3,634
Payments received, net of discounts realized	(1,181)
Charge-offs	(352)
Transfer to other real estate	(325)
Carrying amount - December 31, 2016	1,776
Payments received, net of discounts realized	(871)
Purchased impaired credit participation interest sales proceeds, net of discount realized	444
Charge-offs	(600)
Carrying amount - June 30, 2017	$ 749

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, 2017 and December 31, 2016, 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, 2017 and December 31, 2016. The Bank had $3.3 million in troubled debt restructurings that had subsequently defaulted during the six months ended June 30, 2017 and none that had subsequently defaulted during the year ended December 31, 2016.

Modifications as of June 30, 2017:

	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	3	$ 870	$ 591
Other Loans:			
Commercial	3	5,144	3,991
Total	6	$ 6,014	$ 4,582

Modifications as of December 31, 2016:

	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	3	$ 870	$ 608
Other Loans:			
Commercial	6	6,880	5,323
Total	9	$ 7,750	$ 5,931

Note 7 – 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 following tables present the balance of assets and liabilities measured on a recurring basis as of June 30, 2017 and December 31, 2016. 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, 2017				
Available for Sale:				
U.S. Government Agency Securities	$ 8,408	$ -	$ 8,408	$ -
Corporate Securities	13,190	-	13,190	-
Mortgage-Backed Securities	90,278	-	90,278	-
Municipal Securities	79,509	-	79,509	-
Other Securities	673	-	673	-
Total	$ 192,058	$ -	$ 192,058	$ -
December 31, 2016				
Available for Sale:				
U.S. Government Agency Securities	$ 7,566	$ -	$ 7,566	$ -
Corporate Securities	11,127	-	11,127	-
Mortgage-Backed Securities	99,372	-	99,372	-
Municipal Securities	79,636	-	79,636	-
Other Securities	641	-	641	-
Total	$ 198,342	$ -	$ 198,342	$ -

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, 2017				
Assets:				
Impaired Loans	$ 10,943	$ -	$ 10,943	$ -
Repossessed Assets	1,227	-	1,227	-
Total	$ 12,170	$ -	$ 12,170	$ -
December 31, 2016				
Assets:				
Impaired Loans	$ 12,865	$ -	$ 12,865	$ -
Repossessed Assets	1,196	-	1,196	-
Total	$ 14,061	$ -	$ 14,061	$ -

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.

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, 2017 and December 31, 2016 are as follows:

	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
			(Dollars in thousands)		
June 30, 2017					
Financial Assets:					
Cash and Short-Term Investments	$ 52,294	$ 52,294	$ 52,294	$ -	$ -
Securities	192,058	192,058	-	192,058	-
Mortgage Loans Held for Sale	167	167	-	167	-
Loans - Net	865,329	852,604	-	-	852,604
Cash Value of BOLI	22,876	22,876	-	22,876	-
Other Equity Securities	7,065	7,065	-	-	7,065
Total	$ 1,139,789	$ 1,127,064	$ 52,294	$ 215,101	$ 859,669
Financial Liabilities:					
Deposits	$ 972,016	$ 948,873	$ -	$ -	$ 948,873
Borrowings	72,402	72,452	-	72,452	-
Total	$ 1,044,418	$ 1,021,325	$ -	$ 72,452	$ 948,873

	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
			(Dollars in thousands)		
December 31, 2016					
Financial Assets:					
Cash and Short-Term Investments	$ 44,729	$ 44,729	$ 44,729	$ -	$ -
Securities	198,342	198,342	-	198,342	-
Mortgage Loans Held for Sale	180	180	-	180	-
Loans - Net	802,789	796,400	-	-	796,400
Cash Value of BOLI	22,567	22,567	-	22,567	-
Other Equity Securities	6,120	6,120	-	-	6,120
Total	$ 1,074,727	$ 1,068,338	$ 44,729	$ 221,089	$ 802,520
Financial Liabilities:					
Deposits	$ 932,795	$ 912,702	$ -	$ -	$ 912,702
Borrowings	53,646	53,706	-	53,706	-
Total	$ 986,441	$ 966,408	$ -	$ 53,706	$ 912,702

Note 8 – Recently Issued Accounting Pronouncements –

In January 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-16, *Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities.* The provisions of this ASU require equity investments to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment. This ASU also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. It also eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities, and eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet. ASU No. 2016-16 requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. It also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU requires separate presentation of financial assets and financial liabilities by category and form on the balance sheet or the accompanying notes to the financial statements. In addition, this ASU clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in the update are effective for fiscal years beginning after December 15, 2017, including interim periods. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

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 is effective for annual and interim periods beginning after December 15, 2018. The adoption of this ASU is not expected to have a material effect on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting*. The ASU amends the codification to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the statement of cash flows. The amendments also allow an accounting policy election to account for forfeitures as they occur. This ASU is effective for annual and interim periods beginning after December 15, 2016, with early adoption permitted. The Company elected an accounting policy to account for forfeitures as they occur upon adoption of this ASU. The adoption of this ASU did not have a material effect on the Company's consolidated financial statements.

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. It is too early to assess the impact this guidance will have 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. The adoption of this ASU is not expected to have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU implements a common revenue standard and clarifies the principles used for recognizing revenue. The amendments of the ASU clarify that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The entity should identify the contract with the customer, identify the performance obligation, determine the transaction price, allocate that transaction price to the performance obligation, and recognize revenue when, or as, the entity satisfies the performance obligation. The amendments of the ASU will be effective for the Company beginning January 1, 2018. The Company intends to adopt the amendments beginning January 1, 2018 and does not expect a significant impact to the Company's consolidated financial statements.

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

FORWARD-LOOKING STATEMENTS

NOTE: 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 subsidiaries, unless the context indicates otherwise.

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:

- 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;
- 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 continuing low crude oil prices that impact certain of our borrowers and investments that operate within, or are backed by collateral associated with, the oil and gas industry;
- changes in interest rates and market prices, which could reduce our net interest margins, asset valuations and expense expectations;
- changes in the levels of loan prepayments and the resulting effects on the value of our loan portfolio;
- increased competition for deposits and loans adversely affecting rates and terms;
- 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;
- 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;
- 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;
- 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 laws and regulations concerning taxes, banking, securities, insurance and other aspects of the financial securities industry, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and the extensive rule making required to be undertaken by various regulatory agencies under the Dodd-Frank Act;
- 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;
- acts of terrorism, an outbreak of hostilities or other international or domestic calamities, weather, including the historic Louisiana flood of 2016, or other acts of God 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. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to 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, 2016 to June 30, 2017, and its results of operations for the three and six months ended June 30, 2017. 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, 2016, 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. We currently operate out of nineteen offices, including sixteen full-service banking centers, two loan production offices, and one wealth solutions office in markets across Louisiana and Texas. As of June 30, 2017, we had total assets of $1.2 billion, total loans of $874.7 million, total deposits of $972.0 million, and total shareholders' equity of $118.8 million.

While we continue to prioritize organic growth, we also seek to capitalize upon other opportunities as they arise. After the close of business on March 31, 2015, we merged with American Gateway Financial Corporation ("AGFC"), parent bank holding company for American Gateway Bank, pursuant to which the operations of AGFC were merged with us and ten former American Gateway Bank branches were added to our branch network. Total assets acquired were $371.5 million, which included loans of $143.2 million, securities available for sale of $108.4 million, and deposits of $283.3 million. Shareholders of AGFC received merger consideration of $10.00 in cash and 11.88 shares of our common stock in exchange for each share of AGFC common stock.

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 target market and throughout the state of Louisiana.

Financial Highlights

The financial highlights as of June 30, 2017 include:

- **Total assets** of $1.2 billion, a $63.2 million or 5.7% increase from December 31, 2016.
- **Total loans** of $874.7 million, a $63.5 million or 7.8% increase from December 31, 2016.
- **Total deposits** of $972.0 million, a $39.2 million or 4.2% increase from December 31, 2016.
- **Net income for the three months** ended June 30, 2017 of $2.1 million, a $1.2 million or 144.0% increase from the three month period ended June 30, 2016.

- **Net interest income** of $11.7 million for the three months ended June 30, 2017, a year-over-year increase of $2.6 million or 28.4%, from the three month period ended June 30, 2016.

- **An allowance for loan and lease losses** of 1.05% of total loans held for investment and a ratio of non-performing loans to total loans held for investment of 1.28% as of June 30, 2017.

- **Return on average assets** of 0.70% over the first six months of 2017.

- **Return on average equity** of 6.96% over the first six months of 2017.

- **Capital ratios** for Tier 1 Leverage, Common Equity Tier 1, Tier 1 Risk-based and Total Risk-based Capital of 9.46%, 10.06%, 10.06% and 10.90%, respectively as of June 30, 2017.

- **Book value per share** of $17.14 as of June 30, 2017, an increase of 4.4% from $16.42 at December 31, 2016.

Results of Operations for the Three and Six Months Ended June 30, 2017 and 2016

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.

For the three months ended June 30, 2017, net interest income totaled $11.7 million, and net interest margin and net interest spread were 4.34% and 4.11%, respectively. For the three months ended June 30, 2016, net interest income totaled $9.1 million and net interest margin and net interest spread were 3.47% and 3.30%, respectively. The positive change in net interest margin and net interest spread was primarily due two factors: 1) the sale of an additional 49% participation interest in one of our impaired credits acquired from AGFC, and 2) the change in the rate environment. Excluding the $1.3 million purchase discount included in interest income which was recognized upon the sale of the 49% participation interest during the quarter ended June 30, 2017, net interest margin and net interest spread were 3.86% and 3.64%, respectively, with an average yield on our loan portfolio of 5.12% and an average yield on total interest-earning assets of 4.50%. In addition, we experienced an overall increase in cost of funds of thirteen basis points. For the six months ended June 30, 2017, net interest income totaled $22.3 million, and net interest margin and net interest spread were 4.19% and 3.99%, respectively. For the six months ended June 30, 2016, net interest income totaled $18.5 million and net interest margin and net interest spread were 3.58% and 3.42%, respectively. The positive change in net interest margin and net interest spread was primarily due to the sale of a 98% participation interest in one of our impaired credits acquired from AGFC, and to a lesser extent, to the change in the rate environment. Excluding the $2.4 million purchase discount included in interest income which was recognized upon the sale of the 98% participation interest during the six months ended June 30, 2017, net interest margin and net interest spread were 3.73% and 3.53%, respectively, with an average yield on our loan portfolio of 4.96% and an average yield on total interest-earning assets of 4.35%. In addition, we experienced an overall increase in cost of funds of thirteen basis points during the six months ended June 30, 2017 compared to the prior year period. While we experienced significant growth in average loan balances, the market yields on new loan originations were below the average yield of amortizing or paid-off loans. Due to the continued impact of new loan growth and the runoff of higher yielding 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, 2017 and 2016, 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.

	For the Three Months Ended June 30,					
	2017			2016		
	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	$ 867,528	$ 12,398	5.72%	$ 791,964	$ 9,570	4.83%
Securities available for sale	197,782	972	1.97%	207,965	929	1.79%
Interest-bearing deposits in other banks	12,219	30	0.98%	49,630	77	0.62%
Total interest-earning assets	1,077,529	13,400	4.97%	1,049,559	10,576	4.03%
Allowance for loan losses	(8,314)			(7,200)		
Noninterest-earning assets	104,227			119,325		
Total assets	$ 1,173,442	$ 13,400		$ 1,161,684	$ 10,576	
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 724,880	$ 1,501	0.83%	$ 758,851	$ 1,317	0.69%
Advances from Federal Home Loan Bank ("FHLB")	66,494	170	1.02%	48,347	133	1.10%
Other borrowings	6,315	39	2.47%	6,013	25	1.66%
Total interest-bearing liabilities	797,689	1,710	0.86%	813,211	1,475	0.73%
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	252,299			224,480		
Other liabilities	5,564			8,665		
Total noninterest-bearing liabilities	257,863			233,145		
Shareholders' equity	117,890			115,328		
Total liabilities and shareholders' equity	$ 1,173,442			$ 1,161,684		
Net interest rate spread[(1)]			4.11%			3.30%
Net interest income		$ 11,690			$ 9,101	
Net interest margin[(2)]			4.34%			3.47%

(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,					
	2017			2016		
	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	$ 850,680	$ 23,539	5.53%	$ 786,112	$ 19,267	4.90%
Securities available for sale	199,883	1,919	1.92%	211,626	1,903	1.80%
Interest-bearing deposits in other banks	10,782	47	0.87%	38,765	118	0.61%
Total interest-earning assets	1,061,345	25,505	4.81%	1,036,503	21,288	4.11%
Allowance for loan losses	(8,258)			(7,266)		
Noninterest-earning assets	101,109			102,497		
Total assets	$ 1,154,196	$ 25,505		$ 1,131,734	$ 21,288	
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 718,007	$ 2,849	0.79%	$ 735,960	$ 2,424	0.66%
Advances from Federal Home Loan Bank ("FHLB")	65,048	326	1.00%	53,553	280	1.05%
Other borrowings	6,706	80	2.39%	6,166	52	1.69%
Total interest-bearing liabilities	789,761	3,255	0.82%	795,679	2,756	0.69%
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	242,841			214,546		
Other liabilities	5,776			6,922		
Total noninterest-bearing liabilities	248,617			221,468		
Shareholders' equity	115,818			114,587		
Total liabilities and shareholders' equity	$ 1,154,196			$ 1,131,734		
Net interest rate spread(1)			3.99%			3.42%
Net interest income		$ 22,250			$ 18,532	
Net interest margin(2)			4.19%			3.58%

(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 this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

	For the Three Months Ended June 30, 2017 compared to the Three Months Ended June 30, 2016		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands) (Unaudited)		
Interest-earning assets:			
Total loans	$ 1,080	$ 1,748	$ 2,828
Securities available for sale	(50)	93	43
Interest-earning deposits in other banks	(92)	45	(47)
Total increase in interest income	$ 938	$ 1,886	$ 2,824
Interest-bearing liabilities:			
Interest-bearing deposits	$ (70)	$ 254	$ 184
Advances from FHLB	46	(9)	37
Other borrowings	2	12	14
Total increase in interest expense	(22)	257	235
Increase in net interest income	$ 960	$ 1,629	$ 2,589

	For the Six Months Ended June 30, 2017 compared to the Six Months Ended June 30, 2016		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands) (Unaudited)		
Interest-earning assets:			
Total loans	$ 1,787	$ 2,485	$ 4,272
Securities available for sale	(113)	129	16
Interest-earning deposits in other banks	(122)	51	(71)
Total increase in interest income	$ 1,552	$ 2,665	$ 4,217
Interest-bearing liabilities:			
Interest-bearing deposits	$ (71)	$ 496	$ 425
Advances from FHLB	58	(12)	46
Other borrowings	6	22	28
Total increase in interest expense	(7)	506	499
Increase in net interest income	$ 1,559	$ 2,159	$ 3,718

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, 2017 and $150,000 for the same period in 2016. For the six months ended June 30, 2017 and 2016, the provision for loan losses was $1.6 million and $820,000, respectively. The higher provision during the first six months of 2017 was to increase our general reserves related to our exposure to the commercial and energy sectors.

Noninterest Income

Our primary sources of noninterest income are service charges on deposit accounts, debit card 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,		Increase
	2017	2016	(Decrease)
	(Dollars in thousands) (Unaudited)		
Noninterest income:			
Service charges on deposit accounts	$ 525	$ 489	$ 36
Debit card fee income	169	159	10
Automated Teller Machine ("ATM") fees	48	44	4
Bank-owned life insurance income	159	137	22
Gain on sales of investment securities	—	56	(56)
Brokerage commissions	237	201	36
Correspondent bank income	99	65	34
Pass-through income (loss) from SBIC partnerships	190	(44)	234
Other	173	163	10
Total noninterest income	$ 1,600	$ 1,270	$ 330

	For the Six Months Ended June 30,		Increase
	2017	2016	(Decrease)
	(Dollars in thousands) (Unaudited)		
Noninterest income:			
Service charges on deposit accounts	$ 1,037	$ 983	$ 54
Debit card fee income	332	312	20
Automated Teller Machine ("ATM") fees	98	89	9
Bank-owned life insurance income	309	490	(181)
Gain on sales of investment securities	—	231	(231)
Brokerage commissions	443	272	171
Correspondent bank income	165	71	94
Pass-through income (loss) from SBIC partnerships	190	(44)	234
Other	330	307	23
Total noninterest income	$ 2,904	$ 2,711	$ 193

Noninterest income for the three months ended June 30, 2017 increased $330,000 or 26.0% to $1.6 million compared to noninterest income of $1.3 million for the same period in 2016. Noninterest income for the six months ended June 30, 2017 increased $193,000 or 7.1% to $2.9 million compared to noninterest income of $2.7 million for the same period in 2016. 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 $525,000 for the three months ended June 30, 2017, an increase of $36,000 over the same period in 2016. For the six months ended June 30, 2017, service charges on deposit accounts were $1.0 million, an increase of $54,000 over the same period in 2016. The increase for both the three and six months ended June 30, 2017, over the same period in 2016, was primarily due to continued deposit penetration in our market area and the resulting increase in fee income.

Debit card fee income. We earn fees from our customers based upon debit card activity, and these fees constitute a significant recurring component of our noninterest income. Debit card fee income was $169,000 and $159,000 for the three months ended June 30, 2017 and 2016, respectively, representing an increase of $10,000 or 6.3%. For the six months ended June 30, 2017 and 2016, debit card fee income was $332,000 and $312,000, respectively, representing an increase of $20,000 or 6.4%. Both increases were primarily due to the continued growth of our deposit base.

Bank-owned life insurance ("BOLI") *income.* We invest in BOLI due to its attractive nontaxable return and protection against the loss of our key employees. We record income based on the growth of the cash surrender value of these policies as well as the annual yield. Income from BOLI was $159,000 for the three months ended June 30, 2017 as compared to $137,000 for the same time period in 2016, an increase of $22,000. For the six months ended June 30, 2017 and 2016, income was $309,000 and $490,000, respectively. The decrease for the six months ended June 30, 2017, over the same period in 2016, was primarily due to receipt of a death benefit related to a former AGFC employee during the first quarter of 2016.

Brokerage commissions. We earn commissions from brokerage services provided by our Wealth Solutions Group. Brokerage commissions totaled $237,000 and $201,000 for the three months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, commissions totaled $443,000 and $272,000, respectively. The increase of $36,000 or 17.9% for the three months ended June 30, 2017 and $171,000 or 62.9% for the six months ended June 30, 2017, over the prior year periods, was primarily due to recruiting a 4-person advisory team in 2016 and completing the conversion of their book of business from the prior broker-dealer to Business First.

Correspondent bank income. During the first half of 2016 we renegotiated certain of our correspondent banking relationships. We received earnings credit income of $99,000 and $65,000 for the three months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, we received earnings credit income of $165,000 and $71,000, respectively.

Pass-through income from SBIC partnerships. We are an investor in several SBIC programs, which are joint ventures between various investors with venture capital, the Small Business Administration ("SBA"), and small business borrowers. During 2016, the programs in which we have invested venture capital were still in the start-up phase. Those programs are maturing and becoming profitable in 2017. Pass-through income from SBIC partnerships was $190,000 for both the three and six months ended June 30, 2017, compared to a loss of $44,000 for both the three and six months ended June 30, 2016.

Other. This category includes a variety of other income producing activities, including wire transfer fees, mortgage-related income, insurance commissions, credit card income, participation fee income and rental income. Other income increased $10,000 or 6.1% for the three months ended June 30, 2017, compared to the same period in 2016. For the six months ended June 30, 2017, compared to the same period in 2016, other income increased $23,000 or 7.5%.

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 table presents, for the periods indicated, the major categories of noninterest expense:

	For the Three Months Ended June 30,		Increase
	2017	2016	(Decrease)
	(Dollars in thousands) (Unaudited)		
Salaries and employee benefits	$ 5,397	$ 5,027	$ 370
Non-staff expenses:			
Occupancy of bank premises	626	486	140
Depreciation and amortization	378	385	(7)
Data processing	381	358	23
FDIC assessment fees	189	193	(4)
Legal and other professional fees	300	693	(393)
Advertising and promotions	333	281	52
Utilities and communications	258	232	26
Ad valorem shares tax	165	181	(16)
Directors' fees	80	81	(1)
Other real estate owned expenses and write-downs	16	54	(38)
Other	991	1,179	(188)
Total noninterest expense	$ 9,114	$ 9,150	$ (36)

	For the Six Months Ended June 30,		Increase
	2017	2016	(Decrease)
	(Dollars in thousands) (Unaudited)		
Salaries and employee benefits	$ 10,381	$ 9,723	$ 658
Non-staff expenses:			
Occupancy of bank premises	1,247	1,100	147
Depreciation and amortization	768	773	(5)
Data processing	760	733	27
FDIC assessment fees	366	357	9
Legal and other professional fees	584	1,058	(474)
Advertising and promotions	663	565	98
Utilities and communications	491	511	(20)
Ad valorem shares tax	330	361	(31)
Directors' fees	241	170	71
Other real estate owned expenses and write-downs	39	145	(106)
Other	2,010	2,055	(45)
Total noninterest expense	$ 17,880	$ 17,551	$ 329

Noninterest expense for the three months ended June 30, 2017 decreased $36,000 or 0.4% to $9.1 million compared to noninterest expense of $9.2 million for the same period in 2016. For the six months ended June 30, 2017, noninterest expense increased $329,000 or 1.9% to $17.9 million, compared to noninterest expense of $17.6 million for the same period in 2016. The most significant components 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, benefit plans, health insurance and payroll taxes. Salaries and employee benefits were $5.4 million for the three months ended June 30, 2017, an increase of $370,000 or 7.4% compared to the same period in 2016. For the six months ended June 30, 2017, salaries and benefits were $10.4 million, an increase of $658,000 of 6.8% compared to the same period in 2016. The increase was primarily due to promotions and / or additional hires for new positions, our merit increase cycle, and higher commissions paid as a result of the increase in our brokerage services activity. As of June 30, 2017, we had 213 full-time equivalent employees compared to 212 as of June 30, 2016. Salaries and employee benefits included stock-based compensation expense of $70,000 and $50,000 for the three months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, salaries and benefits included stock-based compensation income of $84,000 and expense of $156,000, respectively. We had net stock-based compensation income for the six months ended June 30, 2017 due to the forfeiture of vested stock options for certain employees during the first quarter 2017.

Occupancy of bank premises. Expenses associated with occupancy of premises was $626,000 and $486,000 for the three months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, occupancy and bank premises expenses totaled $1.2 million and $1.1 million, respectively. The increase for both the three and six months ended June 30, 2017, compared to the prior year periods, may be attributed primarily to increased rent expense due to new lease commitments as a result of the third quarter 2016 relocation of our corporate offices to downtown Baton Rouge and entering into the Dallas, Texas market in 2017, as well as a second quarter 2016 property insurance refund related to the AGFC properties for policies prepaid through December 31, 2015, but cancelled at the time of the merger.

Legal and other professional fees. Other professional fees include audit, loan review, compliance, and other consultants. Legal and other professional fees were $300,000 and $693,000 for the three months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, legal and other professional fees were $584,000 and $1.1 million, respectively. Legal and other professional fees were $393,000 or 56.7% lower during the three months ended June 30, 2017 and $474,000 or 44.8% lower during the six months ended June 30, 2017, compared to the same periods in 2016, primarily due to the fees incurred in 2016 in our defense of the litigation related to the dissenting former AGFC shareholders who exercised their statutory rights of appraisal.

Directors' fees. Directors' fees were $80,000 and $81,000 for the three months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, directors' fees were $241,000 and $170,000, respectively. The increase for the six months ended June 30, 2017 of $71,000, or 41.8%, was primarily due to the March 31, 2017 issuance of an aggregate 4,410 shares of our common stock valued at $75,000 to our non-employee directors as non-cash compensation for their board service to Business First.

Other. This category includes 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 $188,000 for the three months ended June 30, 2017 compared to the same period in 2016. For the six months ended June 30, 2017, other noninterest expense decreased $45,000 compared to the same period in 2016. The decrease in other expenses for the three months ended June 30, 2017, compared to the same period in 2016, was primarily due to the $162,000 statutory interest paid as a result of the litigation settlement with the dissenting former AGFC shareholders who exercised their statutory rights of appraisal.

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, 2017, income tax expense totaled $819,000, an increase of $589,000 or 256.1% compared to $230,000 for the same period in 2016. For the six months ended June 30, 2017, income tax expense totaled $1.6 million, an increase of $959,000 or 153.0% compared to $627,000 for the same period in 2016. For both periods presented, the increase in income tax expense may be attributed primarily to a higher level of taxable income. Our effective tax rates for the three months ended June 30, 2017 and 2016 were 28.5% and 21.5%, respectively. For the six months ended June 30, 2017 and 2016, our effective tax rates were 28.3% and 21.8%, respectively. Our effective tax rate for both periods was affected primarily by tax-exempt income generated by municipal securities and BOLI and by other nondeductible expenses.

Financial Condition

Our assets increased $63.2 million or 5.7% from December 31, 2016 to June 30, 2017, primarily due to loan growth.

Loan Portfolio

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

As of June 30, 2017, total loans were $874.7 million, an increase of $63.6 million compared to $811.1 million as of December 31, 2016. The increase was primarily due to our continued loan penetration in our primary market area. Of these amounts, $167,000 and $180,000 in loans were classified as loans held for sale as of June 30, 2017 and December 31, 2016, respectively.

Total loans as a percentage of deposits were 90.0% and 87.0% as of June 30, 2017 and December 31, 2016, respectively. Total loans as a percentage of assets were 74.8% and 73.3% as of June 30, 2017 and December 31, 2016, respectively.

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

	As of June 30, 2017		As of December 31, 2016	
	Amount	Percent	Amount	Percent
	(Dollars in thousands) (Unaudited)		(Dollars in thousands)	
Commercial	$ 238,924	27.3%	$ 213,120	26.3%
Real estate:				
Construction and land	112,199	12.8%	94,426	11.6%
Farmland	10,524	1.2%	9,217	1.1%
1-4 family residential	139,398	16.0%	129,052	15.9%
Multi-family residential	23,039	2.6%	22,737	2.8%
Nonfarm nonresidential	304,278	34.8%	298,057	36.8%
Consumer	46,144	5.3%	44,342	5.5%
Total loans held for investment	$ 874,506	100%	$ 810,951	100%

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 $25.8 million or 12.1% to $238.9 million as of June 30, 2017 from $213.1 million as of December 31, 2016, 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 are generally diverse in terms of type.

Construction and land loans increased $17.8 million or 18.8% to $112.2 million as of June 30, 2017 from $94.4 million as of December 31, 2016, primarily due to the 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 $10.3 million or 8.0% to $139.4 million as of June 30, 2017 from $129.1 million as of December 31, 2016, primarily due to both the conversion of residential construction to in-house financed owner-occupied term debt and new financing of existing 1-4 family residential.

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 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 $6.2 million or 2.1% to $304.3 million as of June 30, 2017 from $298.1 million as of December 31, 2016, primarily due to the continued penetration into our market area by our bankers who attracted new clients and leveraged existing relationships to finance growth and expansion opportunities, net of regularly scheduled principal amortization of the portfolio and loans that were refinanced by borrowers with other financial institutions.

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, 2017			
	One Year or Less	One Through Five Years	After Five Years	Total
	(Dollars in thousands)(Unaudited)			
Commercial	$ 72,425	$ 125,537	$ 40,962	$ 238,924
Real estate:				
Construction and land	46,794	50,923	14,482	112,199
Farmland	1,106	6,953	2,465	10,524
1-4 family residential	17,624	46,016	75,758	139,398
Multi-family residential	6,592	5,265	11,182	23,039
Nonfarm nonresidential	30,378	124,132	149,768	304,278
Consumer	10,601	26,347	9,196	46,144
Total loans held for investment	$ 185,520	$ 385,173	$ 303,813	$ 874,506
Amounts with fixed rates	$ 81,270	$ 272,854	$ 212,222	$ 566,346
Amounts with floating rates	$ 104,250	$ 112,319	$ 91,591	$ 308,160

	As of December 31, 2016			
	One Year or Less	One Through Five Years	After Five Years	Total
	(Dollars in thousands)			
Commercial	$ 76,596	$ 98,037	$ 38,487	$ 213,120
Real estate:				
Construction and land	45,403	39,346	9,677	94,426
Farmland	779	5,973	2,465	9,217
1-4 family residential	14,509	51,557	62,986	129,052
Multi-family residential	12,335	5,268	5,134	22,737
Nonfarm nonresidential	30,371	120,082	147,604	298,057
Consumer	14,560	23,437	6,345	44,342
Total loans held for investment	$ 194,553	$ 343,700	$ 272,698	$ 810,951
Amounts with fixed rates	$ 81,929	$ 252,718	$ 176,540	$ 511,187
Amounts with floating rates	$ 112,624	$ 90,982	$ 96,158	$ 299,764

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 $8.5 million in nonperforming assets as of June 30, 2017 and December 31, 2016, respectively. We had $11.2 million in nonperforming loans as of June 30, 2017 compared to $7.3 million as of December 31, 2016. The increase in nonperforming assets and nonperforming loans from December 31, 2016 to June 30, 2017 is primarily due to two relationships placed on nonaccrual status during the quarter ended March 31, 2017, one of which is in the energy sector and the other is in the gaming industry.

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

	As of June 30, 2017 (Dollars in thousands) (Unaudited)	As of December 31, 2016 (Dollars in thousands)
Nonaccrual loans	$ 11,105	$ 7,126
Accruing loans 90 or more days past due	55	168
Total nonperforming loans	11,160	7,294
Nonaccrual debt securities	—	—
Other real estate owned:		
Commercial real estate, construction, land and land development	1,186	1,187
Residential real estate	41	—
Total other real estate owned	1,227	1,187
Total nonperforming assets	$ 12,387	$ 8,481
Restructured loans-nonaccrual	$ 4,024	$ 816
Restructured loans-accruing	$ 557	$ 5,115
Ratio of nonperforming loans to total loans held for investment	1.28%	0.90%
Ratio of nonperforming assets to total assets	1.06%	0.77%

	As of June 30, 2017 (Dollars in thousands) (Unaudited)	As of December 31, 2016 (Dollars in thousands)
Nonaccrual loans by category:		
Real estate:		
Construction and land	$ 146	$ 243
1-4 family residential	2,393	2,721
Multi-family residential	—	—
Nonfarm nonresidential	3,404	1,201
Commercial	4,927	2,763
Consumer	235	198
Total	$ 11,105	$ 7,126

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. We review the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is believed to be inherent in each credit as of each monthly reporting period. Our methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and 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.

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

	As of June 30, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands) (Unaudited)				
Real estate:					
Construction and land	$ 109,643	$ 2,001	$ 409	$ 146	$ 112,199
Farmland	10,524	—	—	—	10,524
1-4 family residential	129,819	5,270	1,916	2,393	139,398
Multi-family residential	22,997	—	42	—	23,039
Nonfarm nonresidential	288,548	10,561	1,765	3,404	304,278
Commercial	209,394	21,211	3,392	4,927	238,924
Consumer	45,213	673	23	235	46,144
Total	$ 816,138	$ 39,716	$ 7,547	$ 11,105	$ 874,506

	As of December 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real estate:					
Construction and land	$ 92,951	$ 932	$ 300	$ 243	$ 94,426
Farmland	9,217	—	—	—	9,217
1-4 family residential	118,891	4,782	2,658	2,721	129,052
Multi-family residential	22,685	—	52	—	22,737
Nonfarm nonresidential	280,398	14,531	1,927	1,201	298,057
Commercial	186,197	16,783	7,377	2,763	213,120
Consumer	43,414	505	225	198	44,342
Total	$ 753,753	$ 37,533	$ 12,539	$ 7,126	$ 810,951

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.

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, 2017, the allowance for loan losses totaled $9.2 million or 1.05% of total loans held for investment. As of December 31, 2016, the allowance for loan losses totaled $8.2 million or 1.01% 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, 2017 (Dollars in thousands) (Unaudited)	As of and For the Year Ended December 31, 2016 (Dollars in thousands)
Average loans outstanding[1]	$ 850,680	$ 795,625
Gross loans held for investment outstanding at end of period[1]	$ 874,506	$ 810,951
Allowance for loan losses at beginning of period	8,162	7,244
Provision for loan losses	1,660	1,220
Charge-offs:		
Real estate:		
Construction, land and farmland	2	484
Residential	20	162
Nonfarm non-residential	617	473
Commercial	53	667
Consumer	30	3
Total charge-offs	722	1,789
Recoveries:		
Real estate:		
Construction, land and farmland	1	10
Residential	14	140
Nonfarm non-residential	1	1,258
Commercial	30	33
Consumer	31	46
Total recoveries	77	1,487
Net charge-offs	645	302
Allowance for loan losses at end of period	$ 9,177	$ 8,162
Ratio of allowance to end of period loans held for investment	1.05%	1.01%
Ratio of net charge-offs to average loans	0.08%	0.04%

(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, 2017		As of December 31, 2016	
	Amount	Percent to Total	Amount	Percent to Total
	(Dollars in thousands) (Unaudited)		(Dollars in thousands)	
Real estate:				
Construction and land	$ 1,187	12.9%	$ 933	11.4%
Farmland	88	1.0%	75	0.9%
1-4 family residential	1,542	16.8%	1,228	15.1%
Multi-family residential	185	2.0%	172	2.1%
Nonfarm nonresidential	2,443	26.6%	2,314	28.4%
Total real estate	5,445	59.3%	4,722	57.9%
Commercial	3,342	36.4%	3,039	37.2%
Consumer	390	4.3%	401	4.9%
Total allowance for loan losses	$ 9,177	100%	$ 8,162	100%

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, 2017, the carrying amount of investment securities totaled $192.1 million, a decrease of $6.3 million or 3.2% compared to $198.3 million as of December 31, 2016. Securities represented 16.4%, and 17.9% of total assets as of June 30, 2017 and December 31, 2016, 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, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in thousands) (Unaudited)		
U.S. government agencies	$ 8,380	$ 57	$ 29	$ 8,408
Corporate bonds	13,134	71	15	13,190
Municipal securities	78,906	771	168	79,509
Mortgage-backed securities	91,274	9	1,005	90,278
Other securities	820	—	147	673
Total	$ 192,514	$ 908	$ 1,364	$ 192,058

	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in thousands)		
U.S. government agencies	$ 7,580	$ 36	$ 50	$ 7,566
Corporate bonds	11,148	31	52	11,127
Municipal securities	80,559	210	1,133	79,636
Mortgage-backed securities	101,766	20	2,414	99,372
Other securities	820	—	179	641
Total	$ 201,873	$ 297	$ 3,828	$ 198,342

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, 2017, 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, 2017									
	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	$ 1,011	0.96%	$ 1,005	1.11%	$ 6,392	2.46%	$ —	—%	$ 8,408	2.12%
Corporate bonds	—	—%	6,569	2.53%	6,621	3.63%	—	—%	13,190	3.08%
Municipal securities	7,410	1.53%	34,700	1.90%	19,168	2.16%	18,231	2.72%	79,509	2.11%
Mortgage-backed securities	8	0.75%	5,241	1.67%	31,707	1.43%	53,322	1.81%	90,278	1.67%
Other securities	—	—%	—	—%	—	—%	673	2.65%	673	2.65%
Total	$ 8,429	1.45%	$ 47,515	1.94%	$ 63,888	1.98%	$ 72,226	2.05%	$ 192,058	1.97%

	As of December 31, 2016									
	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	$ —	—%	$ 2,025	1.03%	$ 5,541	2.42%	$ —	—%	$ 7,566	2.05%
Corporate bonds	—	—%	6,525	2.26%	4,602	1.99%	—	—%	11,127	2.15%
Municipal securities	7,348	1.78%	35,213	1.74%	19,806	2.26%	17,269	2.53%	79,636	2.04%
Mortgage-backed securities	1	2.24%	4,571	1.77%	30,550	1.33%	64,250	1.62%	99,372	1.54%
Other securities	—	—%	—	—%	—	—%	641	2.34%	641	2.34%
Total	$ 7,349	1.78%	$ 48,334	1.78%	$ 60,499	1.78%	$ 82,160	1.82%	$ 198,342	1.80%

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 5.00 years with an estimated effective duration of 44.41 months as of June 30, 2017.

As of June 30, 2017 and December 31, 2016, 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 as of June 30, 2017 were $972.0 million, an increase of $39.2 million compared to $932.8 million as of December 31, 2016, primarily due to an increase in the offering rates on interest-bearing demand accounts and certificates of deposit, in order to attract and retain deposit customers and thereby continue deposit penetration in our primary market area.

Noninterest-bearing deposits as of June 30, 2017 were $243.7 million compared to $223.7 million as of December 31, 2016, an increase of $20.0 million or 9.0%.

Average deposits for the six months ended June 30, 2017 were $960.8 million, an increase of $15.8 million or 1.7% over the full year average for the year ended December 31, 2016 of $945.0 million. The average rate paid on total interest-bearing deposits increased over this period from 0.71% for the year ended December 31, 2016 to 0.79% for the six months ended June 30, 2017. The increase in average rates during the six months ended June 30, 2017 was primarily due to a strategic increase in deposit pricing in order to improve liquidity. In addition, the stability and the continued growth of noninterest-bearing demand accounts served to reduce the cost of deposits to 0.59% for the six months ended June 30, 2017 and 0.55% for the year ended December 31, 2016.

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

	For the Six months Ended June 30, 2017		For the Year Ended December 31, 2016	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands) (Unaudited)		(Dollars in thousands)	
Interest-bearing demand accounts	$ 36,111	0.45%	$ 36,200	0.19%
Negotiable order of withdrawal (“NOW”) accounts	119,924	0.23%	109,763	0.24%
Limited access money market accounts and savings	221,905	0.44%	241,577	0.41%
Certificates and other time deposits > $250k	68,180	1.56%	55,678	1.33%
Certificates and other time deposits ≤ $250k	271,887	1.19%	280,778	1.10%
Total interest-bearing deposits	718,007	0.79%	723,996	0.71%
Noninterest-bearing demand accounts	242,841	—%	221,047	—%
Total deposits	$ 960,848	0.59%	$ 945,043	0.55%

The ratio of average noninterest-bearing deposits to average total deposits for the six months ended June 30, 2017 and the year ended December 31, 2016 was 25.3% and 23.4%, respectively.

The following table sets forth the amount of certificates of deposit that are greater than $250,000 by time remaining until maturity:

	As of June 30, 2017 (Unaudited)	As of December 31, 2016
	(Dollars in thousands)	
1 year or less	$ 53,828	$ 54,866
More than 1 year but less than 3 years	8,740	9,451
3 years or more but less than 5 years	13,300	9,029
5 years or more	—	—
Total	$ 75,868	$ 73,346

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 FHLB allows us to borrow on a blanket floating lien status collateralized by certain securities and loans. As of June 30, 2017 and December 31, 2016, total borrowing capacity of $332.5 million and $321.1 million, respectively, was available under this arrangement, and $66.0 million and $47.1 million, respectively, was outstanding with a weighted average stated interest rate of 2.18% as of June 30, 2017 and 2.64% as of December 31, 2016. Our current FHLB advances mature within two years. We utilize these borrowings to meet liquidity needs and to fund certain fixed rate loans in our portfolio.

As a result of the merger with AGFC, we assumed the outstanding FHLB advances of American Gateway Bank. These advances were recorded at fair value as of acquisition and totaled $41.2 million, resulting in a market value adjustment of $2.0 million which will be accreted over the life of the respective advances as a reduction of interest expense on borrowings.

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

	FHLB Advances (Dollars in Thousands)
June 30, 2017 (Unaudited)	
Amount outstanding at quarter-end	$ 66,007
Weighted average stated interest rate at quarter-end	2.18%
Maximum month-end balance during the quarter	$ 66,360
Average balance outstanding during the quarter	$ 66,494
Weighted average interest rate during the quarter	1.02%
December 31, 2016	
Amount outstanding at year-end	$ 47,064
Weighted average stated interest rate at year-end	2.64%
Maximum month-end balance during the year	$ 80,973
Average balance outstanding during the year	$ 53,516
Weighted average interest rate during the year	1.05%

First National Bankers Bank ("FNBB") long term advances. On September 12, 2016, we borrowed $3.0 million from FNBB with a maturity date of September 12, 2026. This advance is due in nine annual principal payments of $300,000 beginning on September 12, 2017 and one final principal and interest payment of $303,000 due on September 12, 2026. This advance is secured by a pledge of and security interest in the common stock of our wholly-owned subsidiary, Business First Bank. The balance outstanding was $3.0 million at both June 30, 2017 and December 31, 2016. This advance carries a variable interest equal to the Wall Street Journal Prime rate. The rate was 4.00% and 3.75% at June 30, 2017 and December 31, 2016, respectively, and adjusts quarterly. This FNBB long term advance was established for the purpose of paying off the revolving line of credit with FTN.

The following table presents the FNBB long term advances at the dates indicated.

	FNBB Long Term Advances (Dollars in Thousands)
June 30, 2017 (Unaudited)	
Amount outstanding at quarter-end	$ 3,000
Weighted average stated interest rate at quarter-end	4.00%
Maximum month-end balance during the quarter	$ 3,000
Average balance outstanding during the quarter	$ 3,000
Weighted average interest rate during the quarter	3.80%
December 31, 2016	
Amount outstanding at year-end	$ 3,000
Weighted average stated interest rate at year-end	3.75%
Maximum month-end balance during the year	$ 3,000
Average balance outstanding during the year	$ 910
Weighted average interest rate during the year	3.54%

FNBB revolving advances. FNBB allows us to borrow on a revolving basis up to $5.0 million. This line of credit, established on September 12, 2016, is secured by a pledge of and security interest in the common stock of our wholly-owned subsidiary, Business First Bank. The balance on this line of credit was $862,000 at both June 30, 2017 and December 31, 2016. The line of credit bears a variable interest equal to the Wall Street Journal Prime rate. The rate was 4.00% and 3.75% at June 30, 2017 and December 31, 2016, respectively, and adjusts quarterly. This FNBB line matures on September 12, 2017 and was established for the purpose of repurchasing shares of our common stock from certain of our shareholders and for general corporate purposes.

The following table presents the FNBB short term advances at the dates indicated.

	FNBB Short Term Advances (Dollars in Thousands)
June 30, 2017 (Unaudited)	
Amount outstanding at quarter-end	$ 862
Weighted average stated interest rate at quarter-end	4.00%
Maximum month-end balance during the quarter	$ 862
Average balance outstanding during the quarter	$ 862
Weighted average interest rate during the quarter	3.80%
December 31, 2016	
Amount outstanding at year-end	$ 862
Weighted average stated interest rate at year-end	3.75%
Maximum month-end balance during the year	$ 862
Average balance outstanding during the year	$ 24
Weighted average interest rate during the year	3.75%

First Tennessee Bank National Association ("FTN") advances. FTN allowed us to borrow on a revolving basis up to $3.0 million. This line of credit, established on September 3, 2015, was unsecured, but we agreed that we would not pledge any of the capital stock of our wholly-owned subsidiary, Business First Bank, to secure any other obligation. The line of credit was established for the purpose of repurchasing shares of our common stock from certain of our shareholders and for general corporate purposes. This line of credit was paid off on September 12, 2016.

The following table presents the FTN advances at the dates indicated.

	FTN Advances (Dollars in Thousands)
December 31, 2016	
Amount outstanding at year-end	$ —
Weighted average stated interest rate at year-end	—%
Maximum month-end balance during the year	$ 3,000
Average balance outstanding during the year	$ 2,098
Weighted average interest rate during the year	3.10%

Correspondent Bank Federal Funds Purchased Relationships

We maintain Federal Funds Purchased Relationships with the following financial institutions and limits as of June 30, 2017:

		(Dollars in Thousands)
The Independent Banker's Bank	$	25,000
FTN	$	17,000
FNBB	$	30,000
Compass Bank	$	22,500
ServisFirst Bank	$	10,000
Center State Bank	$	9,000

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

		Federal Funds Purchased (Dollars in Thousands)
June 30, 2017 (Unaudited)		
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	$	51
Weighted average interest rate during the quarter		1.98%
December 31, 2016		
Amount outstanding at year-end	$	—
Weighted average interest rate at year-end		—%
Maximum month-end balance during the year	$	2,385
Average balance outstanding during the year	$	544
Weighted average interest rate during the year		1.35%

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, 2017 and the year ended December 31, 2016, 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 and our FNBB revolving line are available and 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, 2017 and December 31, 2016, we maintained six lines of credit, respectively, with commercial banks which provide for extensions of credit with an availability to borrow up to an aggregate $113.5 million as of June 30, 2017 and an aggregate $109.5 million as of December 31, 2016. There were no funds under these lines of credit outstanding as of June 30, 2017 and December 31, 2016.

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 assets totaled $1.2 billion for the six months ended June 30, 2017 and $1.1 billion for the year ended December 31, 2016.

	For the Six Months Ended June 30, 2017 (Unaudited)	For the Year Ended December 31, 2016
Sources of Funds:		
Deposits:		
Noninterest-bearing	21.0%	19.6%
Interest-bearing	62.2%	64.2%
Advances from FHLB	5.7%	4.7%
Other borrowings	0.6%	0.6%
Other liabilities	0.5%	0.6%
Shareholders' equity	10.0%	10.3%
Total	100%	100%
Uses of Funds:		
Loans	73.0%	69.9%
Securities available for sale	17.3%	18.7%
Interest-bearing deposits in other banks	1.0%	2.3%
Other noninterest-earning assets	8.7%	9.1%
Total	100%	100%
Average noninterest-bearing deposits to average deposits	25.3%	23.4%
Average loans to average deposits	88.5%	84.2%

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 8.2% for the six months ended June 30, 2017 compared to the same period in 2016. 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 5.00 years and an effective duration of 44.41 months as of June 30, 2017. As of December 31, 2016, our securities portfolio has a weighted average life of 4.76 years and an effective duration of 44.72 months.

As of June 30, 2017, we had outstanding $255.3 million in commitments to extend credit and $11.1 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2016, we had outstanding $196.2 million in commitments to extend credit and $12.5 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, 2017 and December 31, 2016, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature. As of June 30, 2017, we had cash and cash equivalents of $45.2 million compared to $42.2 million as of December 31, 2016.

Capital Resources

Total shareholders' equity increased to $118.8 million as of June 30, 2017, compared to $113.6 million as of December 31, 2016, an increase of $5.3 million or 4.6%. This increase was primarily the result of $4.0 million in net income.

On July 27, 2017, our Board of Directors (the "Board") declared a quarterly dividend based upon our financial performance for the three months ended June 30, 2017 in the amount of $0.06 per share to the common shareholders of record as of August 15, 2017. The dividend is to be paid on August 31, 2017, 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, 2017 and December 31, 2016, 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, 2017		As of December 31, 2016	
	Amount	Ratio	Amount	Ratio
	(Unaudited)			
	(Dollars in thousands)			
Business First Bancshares, Inc.				
Total capital (to risk weighted assets)	$ 119,370	10.90%	$ 115,437	11.63%
Tier 1 capital (to risk weighted assets)	110,193	10.06%	107,275	10.81%
Common Equity Tier 1 capital (to risk weighted assets)	110,193	10.06%	107,275	10.81%
Tier 1 Leverage capital (to average assets)	110,193	9.46%	107,275	9.67%
Business First Bank				
Total capital (to risk weighted assets)	$ 121,796	11.13%	$ 117,909	11.89%
Tier 1 capital (to risk weighted assets)	112,619	10.30%	109,747	11.07%
Common Equity Tier 1 capital (to risk weighted assets)	112,619	10.30%	109,747	11.07%
Tier 1 Leverage capital (to average assets)	112,619	9.68%	109,747	9.91%

Long Term Debt

For information on our borrowings from FNBB, please refer to "Borrowings."

Contractual Obligations

The following tables summarize contractual obligations and other commitments to make future payments as of June 30, 2017 and December 31, 2016 (other than non-maturity deposit obligations), which consist of future cash payments associated with our contractual obligations pursuant to our FHLB advances, revolving line of credit, long-term borrowings, 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 $66.0 million and $47.1 million as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017 and December 31, 2016, the FHLB advances were collateralized by a blanket floating lien on certain securities and loans, had a weighted average stated rate of 2.18% and 2.64%, respectively, and maturities ranging from 2017 through 2018. The advance under the FNBB long-term borrowing totaled $3.0 million at both June 30, 2017 and December 31, 2016. This advance 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 variable rate of 4.00% and 3.75% at June 30, 2017 and December 31, 2016, respectively, and maturing in 2026. We also had a line of credit with FNBB with an outstanding balance of $862,000 at both June 30, 2017 and December 31, 2016. This line of credit 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 variable rate of 4.00% and 3.75% at June 30, 2017 and December 31, 2016, respectively, and maturing in 2017.

	As of June 30, 2017				
	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
	(Unaudited) (Dollars in thousands)				
Non-cancelable future operating leases	$ 2,017	$ 3,401	$ 2,042	$ 5,512	$ 12,972
Time deposits	268,959	49,761	29,418	250	348,388
Advances from FHLB	51,007	15,000	—	—	66,007
Advances from FNBB	1,162	600	600	1,500	3,862
Securities sold under agreements to repurchase	2,533	—	—	—	2,533
Standby and commercial letters of credit	8,632	2,445	18	—	11,095
Commitments to extend credit	123,499	93,913	6,960	30,911	255,283
Total	$ 457,809	$ 165,120	$ 39,038	$ 38,173	$ 700,140

	As of December 31, 2016				
	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	$ 1,591	$ 2,781	$ 1,776	$ 5,154	$ 11,302
Time deposits	239,062	77,963	20,937	250	338,212
Advances from FHLB	32,064	15,000	—	—	47,064
Advances from FNBB	1,162	600	600	1,500	3,862
Securities sold under agreements to repurchase	2,720	—	—	—	2,720
Standby and commercial letters of credit	9,439	3,081	18	—	12,538
Commitments to extend credit	100,204	72,283	3,409	20,305	196,201
Total	$ 386,242	$ 171,708	$ 26,740	$ 27,209	$ 611,899

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 date 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, 2017				
	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
	(Unaudited) (Dollars in thousands)				
Standby and commercial letters of credit	$ 8,632	$ 2,445	$ 18	$ —	$ 11,095
Commitments to extend credit	123,499	93,913	6,960	30,911	255,283
Total	$ 132,131	$ 96,358	$ 6,978	$ 30,911	$ 266,378

	As of December 31, 2016				
	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	$ 9,439	$ 3,081	$ 18	$ —	$ 12,538
Commitments to extend credit	100,204	72,283	3,409	20,305	196,201
Total	$ 109,643	$ 75,364	$ 3,427	$ 20,305	$ 208,739

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, 2017		As of December 31, 2016	
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	1.30%	(7.32%)	3.80%	(9.03%)
+200	1.20%	(5.10%)	3.60%	(5.27%)
+100	1.30%	(1.62%)	2.60%	(2.73%)
Base	0.00%	0.00%	0.00%	0.00%
-100	(0.20%)	(0.67%)	0.20%	0.16%

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. The assumptions incorporated into the model 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 strategies.

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.

The non-GAAP financial measures that we discuss should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures may differ from that of other companies reporting measures with similar names. You should understand how such other banking organizations calculate their financial measures similar or with names similar to the non-GAAP financial measures we have discussed in this statement when comparing such non-GAAP financial measures.

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.

We believe this measure is important to many investors in the marketplace who are interested in changes from period to period in book value per common share exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing total book value while not increasing tangible book value.

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,		As of December 31,
	2017	2016	2016
	(Unaudited)		
	(Dollars in thousands, except per share data)		
Tangible Common Equity			
Total shareholders' equity	$ 118,813	$ 116,118	$ 113,559
Adjustments:			
Goodwill	(6,824)	(6,824)	(6,824)
Core deposit and other intangibles	(2,141)	(2,417)	(2,279)
Total tangible common equity	$ 109,848	$ 106,877	$ 104,456
Common shares outstanding(1)	6,932,570	7,037,413	6,916,673
Book value per common share	$ 17.14	$ 16.50	$ 16.42
Tangible book value per common share	$ 15.85	$ 15.19	$ 15.10

(1) Excludes the dilutive effect, if any, of 1,011,105, 1,088,505, and 1,086,105 shares of common stock issuable upon exercise of outstanding stock options and warrants as of June 30, 2017, June 30, 2016, and December 31, 2016, 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.

We believe this measure is important to many investors in the marketplace who are interested in the relative changes from period to period in common equity and total assets, each exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing both total shareholders' equity and assets while not increasing our tangible common equity or tangible 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,		As of December 31,
	2017	2016	2016
	(Unaudited)		
	(Dollars in thousands, except per share data)		
Tangible Common Equity			
Total shareholders' equity	$ 118,813	$ 116,118	$ 113,559
Adjustments:			
Goodwill	(6,824)	(6,824)	(6,824)
Core deposit and other intangibles	(2,141)	(2,417)	(2,279)
Total tangible common equity	$ 109,848	$ 106,877	$ 104,456
Tangible Assets			
Total assets	$ 1,169,086	$ 1,174,142	$ 1,105,841
Adjustments:			
Goodwill	(6,824)	(6,824)	(6,824)
Core deposit and other intangibles	(2,141)	(2,417)	(2,279)
Total tangible assets	$ 1,160,121	$ 1,164,901	$ 1,096,738
Common Equity to Total Assets	10.2%	9.9%	10.3%
Tangible Common Equity to Tangible Assets	9.5%	9.2%	9.5%

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, 2016 filed with the SEC.

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

(a) Not applicable.

(b) Not applicable.

(c) 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. (incorporated by reference to Exhibit 3.1 to Business First's Registration Statement on Form S-4 on November 12, 2014 (File No. 333-200112)) http://www.sec.gov/Archives/edgar/data/1624322/000119312514408786/d812282dex31.htm
3.2	Bylaws of Business First Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to Business First's Registration Statement on Form S-4 filed on November 12, 2014 (File No. 333-200112)) http://www.sec.gov/Archives/edgar/data/1624322/000119312514408786/d812282dex32.htm
4.1	Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to Business First's Registration Statement on Form S-4 filed on November 12, 2014 (File No. 333-200112)) http://www.sec.gov/Archives/edgar/data/1624322/000119312514408786/d812282dex41.htm
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 9, 2017 /s/ David R. Melville, III
David R. Melville, III
President and Chief Executive Officer

August 9, 2017 /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 9, 2017

/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 9, 2017

/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, 2017 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 9, 2017

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

/s/ Gregory Robertson
Gregory Robertson
Chief Financial Officer