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 SECUTITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2018

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**	
(Address of principal executive offices)	**70801** **(Zip Code)**

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

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

Indicate by check mark whether the registrant has submitted electronically 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 ☐

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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 November 8, 2018, the issuer has outstanding 11,533,721 shares of common stock, par value $1.00 per share.

BUSINESS FIRST BANCSHARES, INC.

PART I - FINANCIAL INFORMATION

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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)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and Due from Banks	$ 45,941	$ 107,591
Federal Funds Sold	5,934	8,820
Securities Available for Sale, at Fair Values	243,585	179,148
Mortgage Loans Held for Sale	280	201
Loans and Lease Receivable, Net of Allowance for Loan Losses of $10,273 at September 30, 2018 and $8,765 at December 31, 2017	1,287,686	966,519
Premises and Equipment, Net	10,022	8,780
Accrued Interest Receivable	5,188	4,110
Other Equity Securities	10,339	8,627
Other Real Estate Owned	1,824	227
Cash Value of Life Insurance	24,442	23,200
Deferred Taxes	4,359	3,005
Goodwill	32,427	6,824
Core Deposit Intangible	4,103	2,003
Other Assets	2,065	2,201
Total Assets	$ 1,678,195	$ 1,321,256
LIABILITIES		
Deposits:		
Noninterest Bearing	$ 311,170	$ 264,646
Interest Bearing	1,042,901	790,887
Total Deposits	1,354,071	1,055,533
Securities Sold Under Agreements to Repurchase	14,310	1,939
Short Term Borrowings	862	862
Long Term Borrowings	2,400	2,700
Federal Home Loan Bank Borrowings	85,000	75,000
Accrued Interest Payable	1,336	890
Other Liabilities	7,255	4,397
Total Liabilities	1,465,234	1,141,321
Commitments and Contingencies (See Note 7)		
SHAREHOLDERS' EQUITY		
Preferred Stock, No Par Value; 5,000,000 Shares Authorized	-	-
Common Stock, $1 Par Value; 50,000,000 Shares Authorized; 11,533,721 and 10,232,495 Shares Issued and Outstanding at September 30, 2018 and December 31, 2017, respectively	11,534	10,232
Additional Paid-in Capital	171,345	144,172
Retained Earnings	35,460	27,175
Accumulated Other Comprehensive Loss	(5,378)	(1,644)
Total Shareholders' Equity	212,961	179,935
Total Liabilities and Shareholders' Equity	$ 1,678,195	$ 1,321,256

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 September 30,		For The Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest Income:				
Interest and Fees on Loans	$ 17,777	$ 11,433	$ 50,002	$ 34,972
Interest and Dividends on Securities	1,386	953	4,223	2,872
Interest on Federal Funds Sold and Due From Banks	162	38	417	85
Total Interest Income	19,325	12,424	54,642	37,929
Interest Expense:				
Interest on Deposits	3,127	1,665	7,980	4,514
Interest on Borrowings	562	226	1,550	632
Total Interest Expense	3,689	1,891	9,530	5,146
Net Interest Income	15,636	10,533	45,112	32,783
Provision for Loan Losses	503	247	1,451	1,907
Net Interest Income after Provision for Loan Losses	15,133	10,286	43,661	30,876
Other Income:				
Service Charges on Deposit Accounts	695	542	1,941	1,579
Gain (Loss) on Sales of Securities	-	31	-	31
Other Income	852	668	3,347	2,535
Total Other Income	1,547	1,241	5,288	4,145
Other Expenses:				
Salaries and Employee Benefits	7,190	5,559	20,418	15,940
Occupancy and Equipment Expense	1,522	1,139	4,342	3,498
Other Expenses	3,158	2,516	11,079	7,656
Total Other Expenses	11,870	9,214	35,839	27,094
Income Before Income Taxes	4,810	2,313	13,110	7,927
Provision for Income Taxes	910	631	2,464	2,217
Net Income	$ 3,900	$ 1,682	$ 10,646	$ 5,710
Earnings Per Share:				
Basic	$ 0.34	$ 0.24	$ 0.99	$ 0.82
Diluted	$ 0.33	$ 0.23	$ 0.95	$ 0.78

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 September 30,		For The Nine Months Ended September 30,	
	2018	2017	2018	2017
Consolidated Net Income	$ 3,900	$ 1,682	$ 10,646	$ 5,710
Other Comprehensive Income (Loss):				
Unrealized Gain (Loss) on Investment Securities	(1,010)	(166)	(4,727)	2,909
Reclassification Adjustment for Gains (Loss) included in Net Income	-	31	-	31
Income Tax Effect	212	46	993	(1,000)
Other Comprehensive Income (Loss)	(798)	(89)	(3,734)	1,940
Consolidated Comprehensive Income (Loss)	$ 3,102	$ 1,593	$ 6,912	$ 7,650

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 NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(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, 2016	$ 6,917	$ 85,133	$ 23,839	$ (2,330)	$ 113,559
Comprehensive Income:					
Net Income	-	-	5,710	-	5,710
Other Comprehensive Income (Loss)	-	-	-	1,940	1,940
Cash Dividends Declared, $0.17 Per Share	-	-	(1,178)	-	(1,178)
Stock Based Compensation Cost	18	43	-	-	61
Stock Repurchase	(2)	(40)	9	-	(33)
Balances at September 30, 2017	$ 6,933	$ 85,136	$ 28,380	$ (390)	$ 120,059
Balances at December 31, 2017	$ 10,232	$ 144,172	$ 27,175	$ (1,644)	$ 179,935
Comprehensive Income:					
Net Income	-	-	10,646	-	10,646
Other Comprehensive Income (Loss)	-	-	-	(3,734)	(3,734)
Cash Dividends Declared, $0.22 Per Share	-	-	(2,358)	-	(2,358)
Stock Issuance	1,257	26,404	-	-	27,661
Stock Based Compensation Cost	49	851	-	-	900
Surrendered Shares of Stock Based Compensation	(4)	(82)	(3)	-	(89)
Balances at September 30, 2018	$ 11,534	$ 171,345	$ 35,460	$ (5,378)	$ 212,961

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 Nine Months Ended September 30,	
	2018	2017
Cash Flows From Operating Activities:		
Consolidated Net Income	$ 10,646	$ 5,710
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Provision for Loan Losses	1,451	1,907
Depreciation and Amortization	853	911
Net Accretion of Purchase Accounting Valuations	(600)	(3,933)
Noncash Compensation (Income) Expense	811	61
Net Amortization of Securities	1,574	1,347
Gain on Sales of Securities	-	(31)
Noncash Income on Other Equity Securities	(292)	(224)
Gain on Sale of Other Real Estate Owned, Net of Writedowns	(14)	336
Increase in Cash Value of Life Insurance	(501)	(472)
Provision (Credit) for Deferred Income Taxes	(405)	997
Changes in Assets and Liabilities:		
(Increase) Decrease in Accrued Interest Receivable	77	(134)
(Increase) Decrease in Other Assets	1,523	(192)
Increase (Decrease) in Accrued Interest Payable	216	(18)
Increase in Other Liabilities	1,230	893
Net Cash Provided by Operating Activities	16,569	7,158
Cash Flows From Investing Activities:		
Purchases of Securities Available for Sale	(4,531)	(8,104)
Proceeds from Maturities / Sales of Securities Available for Sale	8,843	6,579
Proceeds from Paydowns of Securities Available for Sale	24,817	15,342
Net Cash Paid in Merger	(49,796)	-
Purchases of Other Equity Securities	(1,175)	(2,440)
Redemption of Other Equity Securities	312	189
Net Increase in Loans	(129,308)	(124,501)
Purchases of Premises and Equipment	(790)	(429)
Proceeds from Sales of Other Real Estate	109	705
Net (Increase) Decrease in Federal Funds Sold	12,386	(415)
Net Cash Used in Investing Activities	(139,133)	(113,074)

(CONTINUED)

	For The Nine Months Ended September 30,	
	2018	2017
Cash Flows From Financing Activities:		
Net Increase in Deposits	34,587	82,299
Net Decrease in Securities Sold Under Agreements to Repurchase	(3,676)	206
Net Advances on Federal Home Loan Bank Borrowings	5,000	18,959
Net Proceeds (Repayments) from Long Term Borrowings	(300)	(300)
Proceeds from Issuance of Common Stock	27,661	-
Repurchase of Common Stock	-	(33)
Payment of Dividends on Common Stock	(2,358)	(1,178)
Net Cash Provided by Financing Activities	60,914	99,953
Net Increase (Decrease) in Cash and Cash Equivalents	(61,650)	(5,963)
Cash and Cash Equivalents at Beginning of Period	107,591	42,173
Cash and Cash Equivalents at End of Period	$ 45,941	$ 36,210
Supplemental Disclosures for Cash Flow Information:		
Cash Payments for:		
Interest on Deposits	$ 7,564	$ 4,532
Interest on Borrowings	$ 1,520	$ 632
Income Tax Payments	$ 2,205	$ 1,350
Supplemental Schedule for Noncash Investing and Financing Activities:		
Change in the Unrealized Gain (Loss) on Securities Available for Sale	$ (4,727)	$ 2,940
Change in Deferred Tax Effect on the Unrealized (Gain) Loss on Securities Available for Sale	$ 993	$ (1,000)
Transfer of Loans to Other Real Estate	$ 319	$ 287
Transfer of Premises and Equipment to Other Real Estate	$ 1,373	$ 175

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

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

Note 1 – Basis of Presentation –

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

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

These interim consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission and, therefore, certain information and footnote disclosures normally presented in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") have been omitted or abbreviated.

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.

Note 2 – Reclassifications –

Certain reclassifications may have been made to conform to the classifications adopted for reporting in 2018. These reclassifications have no effect on previously reported net income.

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

Note 3 – Mergers and Acquisitions –

On January 1, 2018, the Company completed the acquisition of Minden Bancorp, Inc. (MBI), and its wholly-owned subsidiary, MBL Bank, located in Minden, Louisiana, further increasing its presence in the Northwest Louisiana region. The Company paid an aggregate cash consideration equal to $56.2 million, or approximately $23.20 in exchange for each share of MBI common stock outstanding immediately prior to the effective time of the acquisition. At December 31, 2017, MBI had approximately $317.1 million in total assets, $192.7 million in net loans, $264.0 million in total deposits, and $30.2 million in total shareholders' equity, and was the leading financial institution in Webster Parish, part of the Shreveport-Bossier City MSA, through its two banking center locations.

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

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

The following unaudited supplemental pro forma information is presented to reflect estimated results assuming MBI was acquired as of January 1, 2017. These unaudited pro forma results are not necessarily indicative of the operating results that the Company would have achieved had the acquisition been completed as of January 1, 2017 and should not be considered representative of future operating results.

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands) (except per share data)		(Dollars in thousands) (except per share data)	
Interest Income	$ 19,325	$ 16,062	$ 54,642	$ 48,620
Interest Expense	3,689	2,259	9,530	6,246
Net Interest Income	15,636	13,803	45,112	42,374
Provision for Loan Losses	503	314	1,451	2,005
Net Interest Income after Provision for Loan Losses	15,133	13,489	43,661	40,369
Noninterest Income	1,547	1,140	5,288	4,439
Noninterest Expense	11,870	10,375	35,839	30,631
Income Before Income Taxes	4,810	4,254	13,110	14,177
Income Tax Expense	910	1,207	2,464	4,070
Net Income	$ 3,900	$ 3,047	$ 10,646	$ 10,107
Earnings Per Common Share				
Basic	$ 0.34	$ 0.30	$ 0.99	$ 0.99
Diluted	$ 0.33	$ 0.29	$ 0.95	$ 0.95

On June 1, 2018, we entered into an Agreement and Plan of Reorganization (the “Reorganization Agreement”) with Richland State Bancorp, Inc. (“RSBI”), the holding company for Richland State Bank, Richland, Louisiana. In connection with the acquisition of RSBI, on June 4, 2018 we completed an offering of 1,207,500 shares of our common stock at a public offering price of $24.00 per share. The aggregate offering price totaled $29.0 million, and the aggregate underwriting discount and commission was $1.7 million. The operating results of RSBI are not included in the above pro forma results.

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

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 September 30,		For The Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands, except per share data)		(Dollars in thousands, except per share data)	
Numerator:				
Net Income Available to Common Shares	$ 3,900	$ 1,682	$ 10,646	$ 5,710
Denominator:				
Weighted Average Common Shares Outstanding	11,533,374	6,932,570	10,795,989	6,926,684
Dilutive Effect of Stock Options and Warrants	460,360	382,782	460,360	382,782
Weighted Average Dilutive Common Shares	11,993,734	7,315,352	11,256,349	7,309,466
Basic Earnings Per Common Share From Net Income Available to Common Shares	$ 0.34	$ 0.24	$ 0.99	$ 0.82
Diluted Earnings Per Common Share From Net Income Available to Common Shares	$ 0.33	$ 0.23	$ 0.95	$ 0.78

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

Note 5 – Securities –

The amortized cost and fair values of securities available for sale as of September 30, 2018 and December 31, 2017 are summarized as follows:

	September 30, 2018 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$ 11,675	$ -	$ 323	$ 11,352
Corporate Securities	13,057	62	230	12,889
Mortgage-Backed Securities	135,218	2	4,919	130,301
Municipal Securities	89,651	78	1,406	88,323
Other Securities	791	-	71	720
Total Securities Available for Sale	$ 250,392	$ 142	$ 6,949	$ 243,585

	December 31, 2017 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$ 9,008	$ 13	$ 68	$ 8,953
Corporate Securities	13,074	59	92	13,041
Mortgage-Backed Securities	81,763	2	1,824	79,941
Municipal Securities	76,553	353	427	76,479
Other Securities	831	-	97	734
Total Securities Available for Sale	$ 181,229	$ 427	$ 2,508	$ 179,148

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

The following tables present a summary of securities with gross unrealized losses and fair values at September 30, 2018 and December 31, 2017, 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.

	September 30, 2018					
	Less Than 12 Months		12 Months or Greater		Total	
	(Dollars in thousands)					
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government Agencies	$ 9,515	$ 253	$ 1,837	$ 70	$ 11,352	$ 323
Corporate Securities	2,020	2	2,273	228	4,293	230
Mortgage-Backed Securities	66,459	1,968	63,492	2,951	129,951	4,919
Municipal Securities	56,312	961	13,167	445	69,479	1,406
Other Securities	-	-	720	71	720	71
Total Securities Available for Sale	$ 134,306	$ 3,184	$ 81,489	$ 3,765	$ 215,795	$ 6,949

	December 31, 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	$ 4,136	$ 56	$ 2,004	$ 12	$ 6,140	$ 68
Corporate Securities	4,448	69	2,007	23	6,455	92
Mortgage-Backed Securities	8,320	71	71,182	1,753	79,502	1,824
Municipal Securities	25,798	168	11,927	259	37,725	427
Other Securities	-	-	734	97	734	97
Total Securities Available for Sale	$ 42,702	$ 364	$ 87,854	$ 2,144	$ 130,556	$ 2,508

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 September 30, 2018 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	$ 12,084	$ 12,055
One to Five Years	49,530	49,081
Over Five to Ten Years	118,010	114,140
Over Ten Years	70,768	68,309
Total Securities Available for Sale	$ 250,392	$ 243,585

Note 6 – Loans and the Allowance for Loan Losses –

Loans receivable at September 30, 2018 and December 31, 2017 are summarized as follows:

	September 30, 2018	December 31, 2017
	(Dollars in thousands)	
Real estate loans:		
Construction and land	$ 196,404	$ 143,535
Farmland	26,882	10,480
1-4 family residential	234,690	157,505
Multi-family residential	22,109	20,717
Nonfarm nonresidential	432,306	337,699
Commercial	317,889	254,427
Consumer	67,679	50,921
Total loans held for investment	1,297,959	975,284
Less:		
Allowance for loan losses	(10,273)	(8,765)
Net loans	$ 1,287,686	$ 966,519

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 September 30, 2018 and December 31, 2017.

Net deferred loan origination fees were $1.4 million and $1.3 million at September 30, 2018 and December 31, 2017, 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 September 30, 2018 and December 31, 2017, overdrafts of $159,000 and $129,000, 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 $129.2 million and $82.4 million at September 30, 2018 and December 31, 2017, 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.

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

Total loans held for investment at September 30, 2018 includes $163.3 million of loans acquired in acquisitions that were recorded at fair value as of the acquisition date. Included in the acquired balances at September 30, 2018 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 $5.4 million and acquired performing loans not accounted for under ASC 310-30 totaling $160.6 million with a related purchase discount of $2.7 million.

Total loans held for investment at December 31, 2017 includes $46.1 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, 2017 were acquired impaired loans with a net carrying amount of $696,000 and acquired performing loans totaling $47.2 million with a related purchase discount of $1.8 million.

The following tables set forth, as of September 30, 2018 and December 31, 2017, 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

	September 30, 2018 (Dollars in thousands)							
	Real Estate: Construction and Land	Real Estate: Farmland	Real Estate: 1-4 Family Residential	Real Estate: Multi-family Residential	Real Estate: Nonfarm Nonresidential	Commercial	Consumer	Total
Allowance for credit losses:								
Beginning Balance	$ 1,421	$ 76	$ 1,284	$ 144	$ 2,323	$ 3,147	$ 370	$ 8,765
Charge-offs	(90)	-	(290)	-	-	-	(73)	(453)
Recoveries	398	-	11	-	13	25	63	510
Provision	(95)	26	528	1	236	668	87	1,451
Ending Balance	$ 1,634	$ 102	$ 1,533	$ 145	$ 2,572	$ 3,840	$ 447	$ 10,273
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ 105	$ -	$ 54	$ 214	$ -	$ 373
Collectively evaluated for impairment	$ 1,634	$ 102	$ 1,428	$ 145	$ 2,518	$ 3,626	$ 447	$ 9,900
Purchased Credit Impaired (1)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans receivable:								
Ending Balance	$ 196,404	$ 26,882	$ 234,690	$ 22,109	$ 432,306	$ 317,889	$ 67,679	$ 1,297,959
Ending Balance:								
Individually evaluated for impairment	$ 7	$ -	$ 2,895	$ -	$ 4,123	$ 5,377	$ 103	$ 12,505
Collectively evaluated for impairment	$ 196,397	$ 26,882	$ 231,628	$ 22,109	$ 422,980	$ 312,512	$ 67,576	$ 1,280,084
Purchased Credit Impaired (1)	$ -	$ -	$ 167	$ -	$ 5,203	$ -	$ -	$ 5,370

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

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	December 31, 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)	-	(184)	-	(617)	(2,945)	(36)	(3,784)
Recoveries	1	-	48	-	23	40	38	150
Provision	489	1	192	(28)	603	3,013	(33)	4,237
Ending Balance	$ 1,421	$ 76	$ 1,284	$ 144	$ 2,323	$ 3,147	$ 370	$ 8,765
Ending Balance:								
Individually evaluated for impairment	$ 36	$ -	$ 125	$ -	$ 46	$ 329	$ -	$ 536
Collectively evaluated for impairment	$ 1,385	$ 76	$ 1,125	$ 144	$ 2,277	$ 2,818	$ 370	$ 8,195
Purchased Credit Impaired (1)	$ -	$ -	$ 34	$ -	$ -	$ -	$ -	$ 34
Loans receivable:								
Ending Balance	$ 143,535	$ 10,480	$ 157,505	$ 20,717	$ 337,699	$ 254,427	$ 50,921	$ 975,284
Ending Balance:								
Individually evaluated for impairment	$ 92	$ -	$ 2,817	$ -	$ 5,831	$ 4,268	$ 441	$ 13,449
Collectively evaluated for impairment	$ 143,443	$ 10,480	$ 154,480	$ 20,717	$ 331,380	$ 250,159	$ 50,480	$ 961,139
Purchased Credit Impaired (1)	$ -	$ -	$ 208	$ -	$ 488	$ -	$ -	$ 696

(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.

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As of September 30, 2018 and December 31, 2017, the credit quality indicators, disaggregated by class of loan, are as follows:

Credit Quality Indicators

	September 30, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real Estate Loans:					
Construction and land	$ 193,894	$ 1,208	$ 1,295	$ 7	$ 196,404
Farmland	26,880	2	-	-	26,882
1-4 family residential	225,196	4,616	2,384	2,494	234,690
Multi-family residential	22,072	-	37	-	22,109
Nonfarm nonresidential	414,530	5,786	5,926	6,064	432,306
Commercial	303,204	3,960	8,052	2,673	317,889
Consumer	66,639	852	85	103	67,679
Total	$ 1,252,415	$ 16,424	$ 17,779	$ 11,341	$ 1,297,959

	December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real Estate Loans:					
Construction and land	$ 141,128	$ 1,953	$ 362	$ 92	$ 143,535
Farmland	10,480	-	-	-	10,480
1-4 family residential	148,845	4,657	1,574	2,429	157,505
Multi-family residential	20,677	-	40	-	20,717
Nonfarm nonresidential	325,216	4,861	1,687	5,935	337,699
Commercial	228,157	20,681	1,951	3,638	254,427
Consumer	49,787	672	21	441	50,921
Total	$ 924,290	$ 32,824	$ 5,635	$ 12,535	$ 975,284

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.

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The following tables reflect certain information with respect to the loan portfolio delinquencies by loan class and amount as of September 30, 2018 and December 31, 2017. All loans greater than 90 days past due are generally placed on non-accrual status.

Aged Analysis of Past Due Loans Receivable

	September 30, 2018 (Dollars in thousands)						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment Over 90 Days Past Due and Still Accruing
Real Estate Loans:							
Construction and land	$ 42	$ 20	$ 29	$ 91	$ 196,313	$ 196,404	$ 27
Farmland	-	-	-	-	26,882	26,882	-
1-4 family residential	1,251	356	1,175	2,782	231,908	234,690	122
Multi-family residential	-	-	-	-	22,109	22,109	-
Nonfarm nonresidential	251	-	3,514	3,765	428,541	432,306	-
Commercial	507	297	2,290	3,094	314,795	317,889	78
Consumer	119	71	107	297	67,382	67,679	29
Total	$ 2,170	$ 744	$ 7,115	$ 10,029	$ 1,287,930	$ 1,297,959	$ 256

	December 31, 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	$ -	$ -	$ 91	$ 91	$ 143,444	$ 143,535	$ -
Farmland	-	-	-	-	10,480	10,480	-
1-4 family residential	470	319	939	1,728	155,777	157,505	73
Multi-family residential	-	-	-	-	20,717	20,717	-
Nonfarm nonresidential	2,344	103	3,329	5,776	331,923	337,699	-
Commercial	-	-	3,274	3,274	251,153	254,427	59
Consumer	6	-	367	373	50,548	50,921	-
Total	$ 2,820	$ 422	$ 8,000	$ 11,242	$ 964,042	$ 975,284	$ 132

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The following is a summary of information pertaining to impaired loans as of September 30, 2018 and December 31, 2017. 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 $186,000 and $257,000 for the nine months ended September 30, 2018 and 2017, respectively.

	September 30, 2018			
	(Dollars in thousands)			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Real Estate Loans:				
Construction and land	$ -	$ -	$ -	$ 30
Farmland	-	-	-	-
1-4 family residential	372	452	105	289
Multi-family residential	-	-	-	-
Nonfarm nonresidential	463	509	54	339
Other Loans:				
Commercial	378	427	214	428
Consumer	-	-	-	-
Total	$ 1,213	$ 1,388	$ 373	$ 1,086
With no allowance recorded:				
Real Estate Loans:				
Construction and land	$ 7	$ 35	$ -	$ 12
Farmland	-	-	-	-
1-4 family residential	2,523	3,018	-	2,728
Multi-family residential	-	-	-	-
Nonfarm nonresidential	3,660	3,728	-	5,764
Other Loans:				
Commercial	4,999	6,857	-	5,689
Consumer	103	145	-	312
Total	$ 11,292	$ 13,783	$ -	$ 14,505
Total Impaired Loans:				
Real Estate Loans:				
Construction and land	$ 7	$ 35	$ -	$ 42
Farmland	-	-	-	-
1-4 family residential	2,895	3,470	105	3,017
Multi-family residential	-	-	-	-
Nonfarm nonresidential	4,123	4,237	54	6,103
Other Loans:				
Commercial	5,377	7,284	214	6,117
Consumer	103	145	-	312
Total	$ 12,505	$ 15,171	$ 373	$ 15,591

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	December 31, 2017 (Dollars in thousands)			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Real Estate Loans:				
Construction and land	$ 90	$ 90	$ 36	$ 74
Farmland	-	-	-	-
1-4 family residential	491	540	125	787
Multi-family residential	-	-	-	-
Nonfarm nonresidential	316	341	46	462
Other Loans:				
Commercial	539	572	329	502
Consumer	-	-	-	5
Total	$ 1,436	$ 1,543	$ 536	$ 1,830
With no allowance recorded:				
Real Estate Loans:				
Construction and land	$ 3	$ 9	$ -	$ 44
Farmland	-	-	-	-
1-4 family residential	2,325	2,744	-	2,188
Multi-family residential	-	-	-	-
Nonfarm nonresidential	5,515	5,653	-	3,402
Other Loans:				
Commercial	3,729	5,581	-	5,898
Consumer	441	472	-	243
Total	$ 12,013	$ 14,459	$ -	$ 11,775
Total Impaired Loans:				
Real Estate Loans:				
Construction and land	$ 93	$ 99	$ 36	$ 118
Farmland	-	-	-	-
1-4 family residential	2,816	3,284	125	2,975
Multi-family residential	-	-	-	-
Nonfarm nonresidential	5,831	5,994	46	3,864
Other Loans:				
Commercial	4,268	6,153	329	6,400
Consumer	441	472	-	248
Total	$ 13,449	$ 16,002	$ 536	$ 13,605

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The Company elected to account for certain loans acquired in business combinations as acquired impaired loans under ASC 310-30 due to evidence of credit deterioration at acquisition and the probability that the Company will be unable to collect all contractually required payments. The expected cash flows approximated fair value as of the date of mergers and, as a result, no accretable yield was recognized at acquisition for the 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, 2016	$ 1,776
Payments received, net of discounts realized	(924)
Purchased impaired credit participation interest sales proceeds, net of discount realized	511
Charge-offs	(667)
Carrying amount - December 31, 2017	696
Carrying amount of purchased impaired credits acquired in MBI acquisition	4,814
Payments received, net of discounts realized	(140)
Carrying amount - September 30, 2018	$ 5,370

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 September 30, 2018 and December 31, 2017, 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.

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The following tables present informative data regarding troubled debt restructurings as of September 30, 2018 and December 31, 2017. The Bank had $3.3 million in troubled debt restructurings that had subsequently defaulted during the year ended December 31, 2017 and $79,000 that had subsequently defaulted during the nine months ended September 30, 2018.

Modifications as of September 30, 2018:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in thousands)	
Troubled Debt Restructuring			
Real Estate Loans:			
1-4 family residential	1	$ 524	$ 401
Nonfarm nonresidential	3	2,412	2,370
Other Loans:			
Commercial	7	5,924	3,602
Total	11	$ 8,860	$ 6,373

Modifications as of December 31, 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	2	$ 703	$ 455
Other Loans:			
Commercial	4	4,498	2,605
Total	6	$ 5,201	$ 3,060

Note 7 – Commitments and Contingencies –

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

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby and commercial letters of credit is represented by the contractual amount of those instruments. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. The Bank uses the same credit policies in making such commitments and conditional obligations as it does for instruments that are included in the balance sheet. In the normal course of business, the Bank has made commitments to extend credit of approximately $274.0 million and standby and commercial letters of credit of approximately $11.3 million at September 30, 2018.

The Bank leases certain branch offices through non-cancelable operating leases with terms that range from one to ten years and contain various renewal options for certain of the leases. Rental expense under these agreements was $1.8 million and $1.3 million for the nine months ended September 30, 2018 and 2017, respectively.

Future minimum lease payments under these leases are as follows:

	(Dollars in thousands)
October 1, 2018 through September 30, 2019	$ 2,571
October 1, 2019 through September 30, 2020	1,506
October 1, 2020 through September 30, 2021	1,257
October 1, 2021 through September 30, 2022	1,068
October 1, 2022 and Thereafter	5,500
Total Future Minimum Lease Payments	$ 11,902

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

Note 8 – Fair Value of Financial Instruments –

Fair Value Disclosures

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

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

Recurring Basis

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

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The following tables present the balance of assets and liabilities measured on a recurring basis as of September 30, 2018 and December 31, 2017. The Bank had a maturity of $335,000 and paydowns of $293,000 on municipal securities in the Level 3 inputs during the nine months ended September 30, 2018. The Company did not record any liabilities at fair value for which measurement of the fair value was made on a recurring basis.

	Fair Value	Level 1	Level 2	Level 3
		(Dollars in thousands)		
September 30, 2018				
Available for Sale:				
U.S. Government Agency Securities	$ 11,352	$ -	$ 11,352	$ -
Corporate Securities	12,889	-	12,889	-
Mortgage-Backed Securities	130,301	-	130,301	-
Municipal Securities	88,323	-	80,289	8,034
Other Securities	720	-	720	-
Total	$ 243,585	$ -	$ 235,551	$ 8,034
December 31, 2017				
Available for Sale:				
U.S. Government Agency Securities	$ 8,953	$ -	$ 8,953	$ -
Corporate Securities	13,041	-	13,041	-
Mortgage-Backed Securities	79,941	-	79,941	-
Municipal Securities	76,479	-	67,817	8,662
Other Securities	734	-	734	-
Total	$ 179,148	$ -	$ 170,486	$ 8,662

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.

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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)		
September 30, 2018				
Assets:				
Impaired Loans	$ 17,503	$ -	$ 17,503	$ -
Repossessed Assets	1,834	-	1,834	-
Total	$ 19,337	$ -	$ 19,337	$ -
December 31, 2017				
Assets:				
Impaired Loans	$ 13,576	$ -	$ 13,576	$ -
Repossessed Assets	227	-	227	-
Total	$ 13,803	$ -	$ 13,803	$ -

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.

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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 September 30, 2018 and December 31, 2017 are as follows:

	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
			(Dollars in thousands)		
September 30, 2018					
Financial Assets:					
Cash and Short-Term Investments	$ 51,875	$ 51,875	$ 51,875	$ -	$ -
Securities	243,585	243,585	-	235,551	8,034
Mortgage Loans Held for Sale	280	280	-	280	-
Loans - Net	1,287,686	1,271,359	-	-	1,271,359
Cash Value of BOLI	24,442	24,442	-	24,442	-
Other Equity Securities	10,339	10,339	-	-	10,339
Total	$ 1,618,207	$ 1,601,880	$ 51,875	$ 260,273	$ 1,289,732
Financial Liabilities:					
Deposits	$ 1,354,071	$ 1,344,936	$ -	$ -	$ 1,344,936
Borrowings	102,572	106,876	-	106,876	-
Total	$ 1,456,643	$ 1,451,812	$ -	$ 106,876	$ 1,344,936

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	Amount	Fair Value	Level 1	Level 2	Level 3
			(Dollars in thousands)		
December 31, 2017					
Financial Assets:					
Cash and Short-Term Investments	$ 116,411	$ 116,411	$ 116,411	$ -	$ -
Securities	179,148	179,148	-	170,486	8,662
Mortgage Loans Held for Sale	201	201	-	201	-
Loans - Net	966,519	952,113	-	-	952,113
Cash Value of BOLI	23,200	23,200	-	23,200	-
Other Equity Securities	8,627	8,627	-	-	8,627
Total	$ 1,294,106	$ 1,279,700	$ 116,411	$ 193,887	$ 969,402
Financial Liabilities:					
Deposits	$ 1,055,533	$ 1,046,096	$ -	$ -	$ 1,046,096
Borrowings	80,501	81,059	-	81,059	-
Total	$ 1,136,034	$ 1,127,155	$ -	$ 81,059	$ 1,046,096

Note 9 – Recently Issued Accounting Pronouncements –

In January 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-01, *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 did not have a material impact on the Company's consolidated financial statements at September 30, 2018.

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 Company is currently assessing the amendment but does not anticipate it will have a material impact on its 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. Management is currently evaluating the potential impact of ASU 2016-13 on the Company's consolidated financial statements. The adoption of this ASU may have a material effect on the Company's consolidated financial statements

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business,* which introduces amendments intended to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments will be applied prospectively and are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those periods. The adoption of this ASU is not expected to have a significant impact on the Company's consolidated financial statements.

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

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. This guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, which comprises a significant portion of our revenue stream. This ASU was effective on January 1, 2018. The Company did not identify any material changes to the timing of revenue recognition.

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Report. Additional information on these and other risk factors can be found in Item 1A. "Risk Factors" of this Report and in Item 1A. "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission, and in "Risk Factors" in the Company's prospectus supplement filed with the SEC on June 5, 2018 under Registration Statement on Form S-3 (No. 333-224692) and prospectus filed with the SEC on October 23, 2018 under Registration Statement on Form S-4 (No. 333-227085).

In the event that one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and we do not undertake any obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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

The following discussion and analysis focuses on significant changes in the financial condition of Business First from December 31, 2017 to September 30, 2018, and its results of operations for the three and nine months ended September 30, 2018. 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, 2017, including the audited consolidated financial statements and notes thereto, management's discussion and analysis, and the risk factor disclosures contained therein. This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that Business First believes are reasonable but may prove to be inaccurate. Certain risks, uncertainties and other factors, including those set forth under "Forward-Looking Statements," "Risk Factors" and elsewhere in this report, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. Business First assumes no obligation to update any of these forward-looking statements.

Overview

We are a registered bank holding company headquartered in Baton Rouge, Louisiana. Through our wholly-owned subsidiary, Business First Bank, a Louisiana state chartered bank, we provide a broad range of financial services tailored to meet the needs of small to medium-sized businesses and professionals. Since our inception in 2006, our priority has been and continues to be creating shareholder value through the establishment of an attractive commercial banking franchise in Louisiana and across our region. We consider our primary market to include the State of Louisiana and Dallas, Texas. We currently operate out of seventeen full-service banking centers in markets across Louisiana and Texas. On January 1, 2018, we completed the acquisition of Minden Bancorp, Inc., or MBI, and its banking subsidiary MBL Bank, to further increase our presence in the Northwest Louisiana region. As of September 30, 2018, we had total assets of $1.7 billion, total loans of $1.3 billion, total deposits of $1.4 billion, and total shareholders' equity of $213.0 million.

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

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

Branch Locations

In March 2018, we closed a banking center in each of Zachary and Erwinville, Louisiana, which is expected to have a minimal impact on operations and customers.

In May 2018, we converted our Dallas, Texas loan production office into a full service banking center.

In June 2018, we converted our New Orleans, Louisiana loan production office into a full service banking center.

In September 2018, we closed a banking center in Baton Rouge, Louisiana, which is expected to have a minimal impact on operations and customers.

Other Developments

On April 9, 2018, our common stock was listed for trading on the NASDAQ Global Select Market. Prior to that time, there was no active public market for our common stock. Our common stock is listed for trading under the symbol "BFST".

On June 1, 2018, we entered into an Agreement and Plan of Reorganization (the "Reorganization Agreement") with Richland State Bancorp, Inc. ("RSBI"), the holding company for Richland State Bank, Richland, Louisiana. In connection with the acquisition of RSBI, on June 4, 2018 we completed an offering of 1,207,500 shares of our common stock at a public offering price of $24.00 per share. The aggregate offering price totaled $29.0 million, and the aggregate underwriting discount and commission was $1.7 million. The results of this agreement are not included throughout this report.

In July 2018, we successfully completed the MBL Bank system conversion without disruption to business operations or customers.

Financial Highlights

The financial highlights as of and for the three and nine months ended September 30, 2018 include:

- **Total assets** of $1.7 billion, a $357.0 million, or 27.0%, increase from December 31, 2017.
- **Total loans held for investment** of $1.3 billion, a $322.7 million, or 33.1%, increase from December 31, 2017.
- **Total deposits** of $1.4 billion, a $298.5 million, or 28.3%, increase from December 31, 2017.
- **Net income** of $3.9 million, a $2.2 million, or 131.9%, increase from the quarter ended September 30, 2017.
- **Net interest income** of $15.6 million, an increase of $5.1 million, or 48.4%, from the three months ended September 30, 2017.
- **Allowance for loan and lease losses** of 0.79% of total loans held for investment, compared to 0.90% as of December 31, 2017, and a ratio of non-performing loans to total loans held for investment of 0.89%, compared to 1.30% as of December 31, 2017.
- **Return on average assets** of 0.87% over the first nine months of 2018, compared to 0.65% for the first nine months of 2017.
- **Return on average equity** of 7.45% over the first nine months of 2018, compared to 6.51% for the first nine months of 2017.
- **Capital ratios** for Tier 1 Leverage, Common Equity Tier 1, Tier 1 Risk-based and Total Risk-based Capital of 11.11%, 12.35%, 12.35% and 13.04%, respectively, compared to 13.53%, 14.49%, 14.49%, and 15.23%, respectively as of December 31, 2017.
- **Book value per share** of $18.46, an increase of 5.0% from $17.58 at December 31, 2017.

Results of Operations for the Three and Nine Months Ended September 30, 2018 and 2017

Performance Summary

For the three months ended September 30, 2018, net income was $3.9 million, or $0.34 per basic share and $0.33 per diluted share, compared to net income of $1.7 million, or $0.24 per basic share and $0.23 per diluted share, for the three months ended September 30, 2017. Return on average assets, on an annualized basis, increased to 0.94% for the three months ended September 30, 2018, from 0.57% for the three months ended September 30, 2017. Return on average equity, on an annualized basis, increased to 7.37% for the three months ended September 30, 2018, as compared to 5.61% for the three months ended September 30, 2017.

For the nine months ended September 30, 2018, net income was $10.6 million, or $0.99 per basic share and $0.95 per diluted share, compared to net income of $5.7 million, or $0.82 per basic share and $0.78 per diluted share, for the nine months ended September 30, 2017. Return on average assets, on an annualized basis, increased to 0.87% for the nine months ended September 30, 2018, from 0.65% for the nine months ended September 30, 2017. Return on average equity, on an annualized basis, increased to 7.45% for the nine months ended September 30, 2018, as compared to 6.51% for the nine months ended September 30, 2017. The increase in net income for both the three and nine months ended September 30, 2018, compared to the same time periods in 2017, can primarily be attributed to the acquisition of MBI, growth of the loan portfolio, and the enactment of the Tax Cuts and Jobs Act which lowered the effective corporate tax rate.

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 September 30, 2018, net interest income totaled $15.6 million, and net interest margin and net interest spread were 4.05% and 3.70%, respectively, compared to $10.5 million, 3.82%, and 3.56%, respectively, for the three months ended September 30, 2017. The average yield on the loan portfolio was 5.65%, compared to 5.08% for the three months ended September 30, 2017, and the average yield on total interest-earning assets was 5.01%, compared to 4.50% for the three months ended September 30, 2017. These metrics were impacted during the three months ended September 30, 2017 by the sale of a participation interest in an impaired credit acquired from American Gateway in 2015. For the three months ended September 30, 2018, overall cost of funds (which includes noninterest-bearing deposits) increased 31 basis points compared to the three months ended September 30, 2017.

For the nine months ended September 30, 2018, net interest income totaled $45.1 million, and net interest margin and net interest spread were 4.00% and 3.72%, respectively, compared to $32.8 million, 4.06%, and 3.84%, respectively, for the nine months ended September 30, 2017. The average yield on the loan portfolio was 5.48%, compared to 5.38% for the nine months ended September 30, 2017, and the average yield on total interest-earning assets was 4.85%, compared to 4.70% for the nine months ended September 30, 2017. These metrics were impacted during the nine months ended September 30, 2017 by the sale of a participation interest in an impaired credit acquired from American Gateway in 2015. For the nine months ended September 30, 2018, overall cost of funds (which includes noninterest-bearing deposits) increased 23 basis points compared to the nine months ended September 30, 2017. Due to the continued impact of new loan growth and competitive deposit pricing, management continues to anticipate, and actively manage, pressure on 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 nine months ended September 30, 2018 and 2017, interest income not recognized on nonaccrual loans was not material. Any nonaccrual loans have been included in the table as loans carrying a zero yield. The average total loans reflected below is net of deferred loan fees and discounts. Acquired loans were recorded at fair value at acquisition and accrete interest income over the remaining lives of the respective loans. Averages presented in the tables below, and throughout this report, are monthly averages.

	For the Three Months Ended September 30,					
	2018			2017		
	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
	(Dollars in thousands) (Unaudited)					
Assets						
Interest-earning assets:						
Total loans	$ 1,258,060	$ 17,777	5.65%	$ 899,739	$ 11,433	5.08%
Securities available for sale	253,902	1,386	2.18	193,509	953	1.97
Interest-bearing deposits in other banks	31,858	162	2.03	11,125	38	1.37
Total interest-earning assets	1,543,820	19,325	5.01	1,104,373	12,424	4.50
Allowance for loan losses	(9,945)			(9,121)		
Noninterest-earning assets	132,242			92,301		
Total assets	$ 1,666,117	$ 19,325		$ 1,187,553	$ 12,424	
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 1,028,412	$ 3,127	1.22%	$ 735,371	$ 1,665	0.91%
Advances from Federal Home Loan Bank ("FHLB")	85,000	506	2.38	65,710	182	1.11
Other borrowings	17,484	56	1.28	6,609	44	2.66
Total interest-bearing liabilities	1,130,896	3,689	1.31	807,690	1,891	0.94
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	315,111			253,866		
Other liabilities	8,479			6,068		
Total noninterest-bearing liabilities	323,590			259,934		
Shareholders' equity	211,631			119,929		
Total liabilities and shareholders' equity	$ 1,666,117			$ 1,187,553		
Net interest rate spread			3.70%			3.56%
Net interest income		$ 15,636			$ 10,533	
Net interest margin			4.05%			3.82%

	For the Nine Months Ended September 30,					
	2018			2017		
	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
	(Dollars in thousands) (Unaudited)					
Assets						
Interest-earning assets:						
Total loans	$ 1,216,395	$ 50,002	5.48%	$ 867,036	$ 34,972	5.38%
Securities available for sale	254,035	4,223	2.22	197,759	2,872	1.94
Interest-bearing deposits in other banks	32,899	417	1.69	10,897	85	1.04
Total interest-earning assets	1,503,329	54,642	4.85	1,075,692	37,929	4.70
Allowance for loan losses	(9,516)			(8,545)		
Noninterest-earning assets	141,209			98,178		
Total assets	$ 1,635,022	$ 54,642		$ 1,165,325	$ 37,929	
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 1,022,982	$ 7,980	1.04%	$ 723,796	$ 4,514	0.83%
Advances from Federal Home Loan Bank ("FHLB")	84,777	1,387	2.18	65,268	508	1.04
Other borrowings	18,478	163	1.18	6,705	124	2.47
Total interest-bearing liabilities	1,126,237	9,530	1.13	795,769	5,146	0.86
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	309,526			246,516		
Other liabilities	8,604			6,101		
Total noninterest-bearing liabilities	318,130			252,617		
Shareholders' equity	190,655			116,939		
Total liabilities and shareholders' equity	$ 1,635,022			$ 1,165,325		
Net interest rate spread			3.72%			3.84%
Net interest income		$ 45,112			$ 32,783	
Net interest margin			4.00%			4.06%

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 September 30, 2018 compared to the Three Months Ended September 30, 2017		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands) (Unaudited)		
Interest-earning assets:			
Total loans	$ 5,063	$ 1,281	$ 6,344
Securities available for sale	330	103	433
Interest-earning deposits in other banks	105	19	124
Total increase in interest income	$ 5,498	$ 1,403	$ 6,901
Interest-bearing liabilities:			
Interest-bearing deposits	$ 891	$ 571	$ 1,462
Advances from FHLB	115	209	324
Other borrowings	35	(23)	12
Total increase in interest expense	1,041	757	1,798
Increase in net interest income	$ 4,457	$ 646	$ 5,103

	For the Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands) (Unaudited)		
Interest-earning assets:			
Total loans	$ 14,361	$ 669	$ 15,030
Securities available for sale	936	415	1,351
Interest-earning deposits in other banks	279	53	332
Total increase in interest income	$ 15,576	$ 1,137	$ 16,713
Interest-bearing liabilities:			
Interest-bearing deposits	$ 2,334	$ 1,132	$ 3,466
Advances from FHLB	319	560	879
Other borrowings	104	(65)	39
Total increase in interest expense	2,757	1,627	4,384
Increase in net interest income	$ 12,819	$ (490)	$ 12,329

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 $503,000 for the three months ended September 30, 2018 and $247,000 for the same period in 2017. The higher provision for the three months ended September 30, 2018 compared to the same period in 2017 was generally attributable to higher loan growth and partially offset by increased credit quality. For the nine months ended September 30, 2018 and 2017, the provision for loan losses was $1.5 million and $1.9 million, respectively. The lower provision for the nine months ending September 30, 2018 compared to the same periods in 2017 was due to increasing our general reserves in 2017 related to our exposure in 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 September 30,		
	2018	2017	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Noninterest income:			
Service charges on deposit accounts	$ 695	$ 542	$ 153
Debit card fee income	219	159	60
Automated Teller Machine ("ATM") fees	48	47	1
Bank-owned life insurance income	168	163	5
Brokerage commissions	(6)	288	(294)
Mortgage origination income	77	61	16
Correspondent bank income	118	63	55
Rental income	166	139	27
Loss on sale of other assets	(103)	—	(103)
Gain (loss) on sales of other real estate owned	—	(340)	340
Other	165	119	46
Total noninterest income	$ 1,547	$ 1,241	$ 306

	For the Nine Months Ended September 30,		
	2018	2017	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Noninterest income:			
Service charges on deposit accounts	$ 1,941	$ 1,579	$ 362
Debit card fee income	549	491	58
Automated Teller Machine ("ATM") fees	223	145	78
Bank-owned life insurance income	502	472	30
Brokerage commissions	506	731	(225)
Mortgage origination income	191	161	30
Correspondent bank income	280	228	52
Rental income	495	184	311
Loss on sale of other assets	(56)	—	(56)
Gain (loss) on sales of other real estate owned	23	(336)	359
Pass-through income (loss) from SBIC partnerships	222	190	32
Other	412	300	112
Total noninterest income	$ 5,288	$ 4,145	$ 1,143

Noninterest income for the three months ended September 30, 2018 increased $306,000, or 24.7%, to $1.5 million compared to noninterest income of $1.2 million for the same period in 2017. Noninterest income for the nine months ended September 30, 2018 increased $1.1 million, or 27.6%, to $5.3 million compared to noninterest income of $4.1 million for the same period in 2017. 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 $695,000 for the three months ended September 30, 2018, an increase of $153,000 over the same period in 2017. For the nine months ended September 30, 2018, service charges on deposit accounts were $1.9 million, an increase of $362,000 over the same period in 2017. The increase for both the three and nine months ended September 30, 2018, over the same periods in 2017, was primarily due to increases in deposit balances and accounts from the acquisition of MBI and organic growth.

ATM fees. We earn fee income as a result of noncustomer activity at our ATMs, and these fees represent a significant and predictable component of our noninterest income. ATM fees were $48,000 and $47,000 for the three months ended September 30, 2018 and 2017, respectively, representing an increase of $1,000, or 2.1%. For the nine months ended September 30, 2018 and 2017, ATM fees were $223,000 and $145,000, respectively, representing an increase of $78,000, or 53.8%. The increase was primarily due to the additional accounts from the acquisition of MBI.

Brokerage commissions. We earn commissions from brokerage services provided by our Wealth Solutions Group. Brokerage expense was $6,000 and commissions was $288,000 for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, commissions totaled $506,000 and $731,000, respectively. The decrease of $294,000 or 102.1% for the three months ended September 30, 2018 and $225,000 or 30.8% for the nine months ended September 30, 2018, over the prior year periods, was primarily due to restructuring our brokerage activities.

Rental income. We receive rental income from the sublease of our former corporate offices. Rental income totaled $166,000 and $139,000 during the three months ended September 30, 2018 and 2017, respectively, an increase of $27,000 over the prior year's comparable period. For the nine months ended September 30, 2018 and 2017, rental income totaled $495,000 and $184,000, respectively, an increase of $311,000. The increase during both the three and nine months ended September 30, 2018, was primarily as a result of an additional sublease of our former corporate offices.

Loss on sales of other assets. During the first nine months of 2018, we closed three branch locations. As part of the process of closing those branches, we moved the buildings to other real estate owned and recognized $56,000 in net losses to mark the buildings to fair value.

Other. This category includes a variety of other income producing activities, including wire transfer fees, mortgage-related income, insurance commissions, credit card income and participation fee income. Other income increased $46,000, or 38.7%, for the three months ended September 30, 2018, compared to the same period in 2017. For the nine months ended September 30, 2018, compared to the same period in 2017, other income increased $112,000, or 37.3%. The increases in both the three and nine months ended September 30, 2018, compared to the same periods in 2017, is primarily due to increases in the use of these services by legacy MBI customers.

Noninterest Expense

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

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

	For the Three Months Ended September 30,		
	2018	2017	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Salaries and employee benefits	$ 7,190	$ 5,559	$ 1,631
Non-staff expenses:			
Occupancy of bank premises	914	617	297
Depreciation and amortization	417	351	66
Data processing	395	385	10
FDIC assessment fees	221	202	19
Legal and other professional fees	328	358	(30)
Advertising and promotions	290	271	19
Utilities and communications	294	242	52
Ad valorem shares tax	321	165	156
Directors' fees	93	76	17
Other real estate owned expenses and write-downs	—	4	(4)
Merger and conversion related expenses	138	—	138
Other	1,269	984	285
Total noninterest expense	$ 11,870	$ 9,214	$ 2,656

	For the Nine Months Ended September 30,		
	2018	2017	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Salaries and employee benefits	$ 20,418	$ 15,940	$ 4,478
Non-staff expenses:			
Occupancy of bank premises	2,632	1,864	768
Depreciation and amortization	1,246	1,119	127
Data processing	1,160	1,145	15
FDIC assessment fees	945	568	377
Legal and other professional fees	1,239	942	297
Advertising and promotions	817	934	(117)
Utilities and communications	835	733	102
Ad valorem shares tax	965	495	470
Directors' fees	344	317	27
Other real estate owned expenses and write-downs	9	43	(34)
Merger and conversion related expenses	1,065	—	1,065
Other	4,164	2,994	1,170
Total noninterest expense	$ 35,839	$ 27,094	$ 8,745

Noninterest expense for the three months ended September 30, 2018 increased $2.7 million, or 28.8%, to $11.9 million, compared to noninterest expense of $9.2 million for the same period in 2017. For the nine months ended September 30, 2018, noninterest expense increased $8.7 million, or 32.3%, to $35.8 million, compared to noninterest expense of $27.1 million for the same period in 2017. The most significant components of the increase were as follows:

Salaries and employee benefits. Salaries and employee benefits are the largest component of noninterest expense and include payroll expense, the cost of incentive compensation, stock-based compensation, benefit plans, health insurance and payroll taxes. Salaries and employee benefits were $7.2 million for the three months ended September 30, 2018, an increase of $1.6 million, or 29.3%, compared to the same period in 2017. For the nine months ended September 30, 2018, salaries and benefits were $20.4 million, an increase of $4.5 million, or 28.1%, compared to the same period in 2017. The increases were primarily due to additional hires for new positions, our merit increase cycle, higher commissions paid as a result of the increase in our brokerage services activity and the acquisition of MBI (including severance and retention payments related to the acquisition) and its legacy operations. As of September 30, 2018, we had 253 full-time equivalent employees, compared to 226 as of September 30, 2017.

Occupancy of bank premises. Expenses associated with occupancy of premises were $914,000 and $617,000 for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, occupancy and bank premises expenses were $2.6 million and $1.9 million, respectively. The increase for both the three and nine months ended September 30, 2018, compared to the same periods in 2017, is primarily due to increased rent expense on our corporate office location and the acquisition of MBI's two legacy branch locations.

FDIC assessment fees. FDIC assessment fees were $221,000 and $202,000 for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, FDIC assessment fees were $945,000 and $568,000, respectively. The increase for both the three and nine months ended September 30, 2018, compared to the same periods in 2017, is primarily due to increased deposits from the acquisition of MBI and organic growth.

Legal and other professional fees. Other professional fees include audit, loan review, compliance, and other consultants. Legal and other professional fees were $328,000 and $358,000 for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, legal and other professional fees were $1.2 million and $942,000, respectively. Legal and other professional fees decreased $30,000, or 8.4%, during the three months ended September 30, 2018 due to legal fees in 2017 related to the acquisition of MBI. During the nine months ended September 30, 2018, legal and professional fees increased $297,000, or 31.5% compared to the same period in 2017, primarily due to the fees incurred in listing our common stock on NASDAQ, the acquisition of MBI and accompanying private placement of common stock, negotiation of the definitive agreement with Richland State Bancorp, Inc. and various other matters.

Advertising and promotions. Advertising and promotions expense was $290,000 and $271,000 for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, advertising and promotions expense was $817,000 and $934,000, respectively. The decrease for the nine months ended September 30, 2018 was primarily due to lower advertising costs, compared to the same period in 2017.

Ad valorem shares tax. Ad valorem shares tax expense was $321,000 and $165,000 for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, ad valorem shares tax expense was $965,000 and $495,000, respectively. The increase for both the three and nine months ended September 30, 2018, compared to the same period in 2017 was primarily due to our increased monthly accrual to compensate for anticipated higher taxes due to the acquisition of MBI and its legacy operations.

Merger and conversion related expenses. Merger and conversion related expenses for both the three and nine months ended September 30, 2018 were related to the acquisition of MBI and RSBI.

Other. This category includes various operating and administrative expenses, including business development expenses (i.e. travel and entertainment, donations and club dues), insurance, supplies and printing, equipment rent, and software support and maintenance. Other noninterest expense increased $285,000 for the three months ended September 30, 2018 compared to the same period in 2017. For the nine months ended September 30, 2018, other noninterest expense increased $1.2 million compared to the same period in 2017. The increase in other expenses for the three months ended September 30, 2018, compared to the same period in 2017, was primarily due to the acquisition of MBI's legacy operations. The increase in other expenses for the nine months ended September 30, 2018, compared to the same period in 2017, was primarily due to a $190,000 atypical franchise tax charge, NASDAQ listing fees of $166,000, and the acquisition of MBI's legacy operations.

Income Tax Expense

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

For the three months ended September 30, 2018, income tax expense totaled $910,000, an increase of $279,000, or 44.2%, compared to the same period in 2017. For the nine months ended September 30, 2018, income tax expense totaled $2.5 million, an increase of $247,000, or 11.1%, compared to the same period in 2017. Our effective tax rates for the three months ended September 30, 2018 and 2017 were 18.9% and 27.3%, respectively. For the nine months ended September 30, 2018 and 2017, our effective tax rates were 18.8% and 28.0%, respectively. The decrease in our effective tax rate for both the three and nine months ended September 30, 2018 is primarily due to a lower corporate tax rate from the enactment of the Tax Cuts and Jobs Act. Our effective tax rate for both periods was affected by tax-exempt income generated by municipal securities and BOLI and by other nondeductible expenses.

Financial Condition

Our total assets increased $356.9 million, or 27.0%, from December 31, 2017 to September 30, 2018, primarily due to the acquisition of MBI and organic growth.

Loan Portfolio

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

As of September 30, 2018, total loans held for investment were $1.3 billion, an increase of $322.7 million, or 33.1%, compared to December 31, 2017. The increase was primarily due to our continued loan penetration in our primary market areas and the acquisition of MBI. Additionally, $280,000 and $201,000 in mortgage loans were classified as loans held for sale as of September 30, 2018 and December 31, 2017, respectively.

Total loans held for investment as a percentage of total deposits were 95.9% and 92.4% as of September 30, 2018 and December 31, 2017, respectively. Total loans held for investment as a percentage of total assets were 77.3% and 73.8% as of September 30, 2018 and December 31, 2017, respectively.

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

	As of September 30, 2018 (Unaudited)		As of December 31, 2017	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Commercial	$ 317,889	24.5%	$ 254,427	26.1%
Real estate:				
Construction and land	196,404	15.1	143,535	14.7
Farmland	26,882	2.1	10,480	1.1
1-4 family residential	234,690	18.1	157,505	16.2
Multi-family residential	22,109	1.7	20,717	2.1
Nonfarm nonresidential	432,306	33.3	337,699	34.6
Consumer	67,679	5.2	50,921	5.2
Total loans held for investment	$ 1,297,959	100.0%	$ 975,284	100.0%

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

Commercial loans increased $63.5 million, or 24.9%, to $317.9 million as of September 30, 2018 from $254.4 million as of December 31, 2017, primarily due to the efforts of our bankers who attracted new clients and leveraged existing bank relationships to fund expansion and growth opportunities and from loans acquired from MBI.

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

Construction and land loans increased $52.9 million, or 36.8%, to $196.4 million as of September 30, 2018 from $143.5 million as of December 31, 2017, primarily due to opportunities to fund small residential land development projects with proven developers who are existing customers of the Bank and have demonstrated a successful track record for many years and from loans acquired from MBI.

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 $77.2 million, or 49.0%, to $234.7 million as of September 30, 2018 from $157.5 million as of December 31, 2017, primarily due to loans acquired from MBI.

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

Nonfarm nonresidential loans increased $94.6 million, or 28.0%, to $432.3 million as of September 30, 2018 from $337.7 million as of December 31, 2017, due to loans acquired from MBI and organic growth.

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 September 30, 2018			
	One Year or Less	One Through Five Years	After Five Years	Total
	(Dollars in thousands) (Unaudited)			
Commercial	$ 114,341	$ 148,926	$ 54,622	$ 317,889
Real estate:				
Construction and land	103,969	62,953	29,482	196,404
Farmland	9,441	15,754	1,687	26,882
1-4 family residential	34,842	113,153	86,695	234,690
Multi-family residential	1,654	10,032	10,423	22,109
Nonfarm nonresidential	49,931	235,578	146,797	432,306
Consumer	34,467	24,422	8,790	67,679
Total loans held for investment	$ 348,645	$ 610,818	$ 338,496	$ 1,297,959
Amounts with fixed rates	$ 129,515	$ 402,983	$ 234,786	$ 767,284
Amounts with floating rates	219,130	207,835	103,710	530,675

	As of December 31, 2017			
	One Year or Less	One Through Five Years	After Five Years	Total
	(Dollars in thousands)			
Commercial	$ 89,665	$ 130,517	$ 34,245	$ 254,427
Real estate:				
Construction and land	59,003	59,109	25,423	143,535
Farmland	1,265	6,919	2,296	10,480
1-4 family residential	21,564	56,763	79,178	157,505
Multi-family residential	1,643	7,323	11,751	20,717
Nonfarm nonresidential	36,638	155,602	145,459	337,699
Consumer	10,362	29,191	11,368	50,921
Total loans held for investment	$ 220,140	$ 445,424	$ 309,720	$ 975,284
Amounts with fixed rates	$ 87,703	$ 299,688	$ 216,251	$ 603,642
Amounts with floating rates	132,437	145,736	93,469	371,642

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 $13.4 million and $12.9 million in nonperforming assets as of September 30, 2018 and December 31, 2017, respectively. We had $11.6 million in nonperforming loans as of September 30, 2018 compared to $12.7 million as of December 31, 2017. The increase in nonperforming assets from December 31, 2017 to September 30, 2018 is primarily due to the acquisition of MBI and the closure of three of our branch locations, which resulted in those buildings being classified as other real estate owned.

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

	As of September 30, 2018 (Unaudited)	As of December 31, 2017
	(Dollars in thousands)	
Nonaccrual loans	$ 11,341	$ 12,535
Accruing loans 90 or more days past due	256	132
Total nonperforming loans	11,597	12,667
Repossessed assets	11	—
Other real estate owned:		
Commercial real estate, construction, land and land development	1,824	227
Residential real estate	—	—
Total other real estate owned	1,824	227
Total nonperforming assets	$ 13,432	$ 12,894
Restructured loans-nonaccrual	$ 2,987	$ 2,008
Restructured loans-accruing	3,386	1,052
Ratio of nonperforming loans to total loans held for investment	0.89%	1.30%
Ratio of nonperforming assets to total assets	0.80	0.98

	As of September 30, 2018 (Unaudited)	As of December 31, 2017
	(Dollars in thousands)	
Nonaccrual loans by category:		
Real estate:		
Construction and land	$ 7	$ 92
1-4 family residential	2,494	2,429
Multi-family residential	—	—
Nonfarm nonresidential	6,064	5,935
Commercial	2,673	3,638
Consumer	103	441
Total	$ 11,341	$ 12,535

Potential Problem Loans

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

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

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

	As of September 30, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands) (Unaudited)				
Real estate:					
Construction and land	$ 193,894	$ 1,208	$ 1,295	$ 7	$ 196,404
Farmland	26,880	2	—	—	26,882
1-4 family residential	225,196	4,616	2,384	2,494	234,690
Multi-family residential	22,072	—	37	—	22,109
Nonfarm nonresidential	414,530	5,786	5,926	6,064	432,306
Commercial	303,204	3,960	8,052	2,673	317,889
Consumer	66,639	852	85	103	67,679
Total	$ 1,252,415	$ 16,424	$ 17,779	$ 11,341	$ 1,297,959

	As of December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real estate:					
Construction and land	$ 141,128	$ 1,953	$ 362	$ 92	$ 143,535
Farmland	10,480	—	—	—	10,480
1-4 family residential	148,845	4,657	1,574	2,429	157,505
Multi-family residential	20,677	—	40	—	20,717
Nonfarm nonresidential	325,216	4,861	1,687	5,935	337,699
Commercial	228,157	20,681	1,951	3,638	254,427
Consumer	49,787	672	21	441	50,921
Total	$ 924,290	$ 32,824	$ 5,635	$ 12,535	$ 975,284

Allowance for Loan Losses

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

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

- for commercial and industrial loans, the operating results of the commercial, industrial or professional enterprise, the borrower's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in that category, and the value, nature and marketability of collateral;
- for commercial mortgage loans and multifamily residential loans, the debt service coverage ratio (income from the property in excess of operating expenses compared to loan payment requirements), operating results of the owner in the case of owner occupied properties, the loan to value ratio, the age and condition of the collateral, and the volatility of income, property value and future operating results typical for properties of that type;
- for 1-4 family residential mortgage loans, the borrower's ability to repay the loan, including a consideration of the debt to income ratio and employment and income stability, the loan to value ratio, and the age, condition and marketability of the collateral; and
- for construction, land development and other land loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease, the quality and nature of contracts for presale or prelease, if any, the experience and ability of the developer, and the loan to value ratio.

As of September 30, 2018, the allowance for loan losses totaled $10.3 million, or 0.79%, of total loans held for investment. As of December 31, 2017, the allowance for loan losses totaled $8.8 million, or 0.90%, 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 Nine Months Ended September 30, 2018 (Unaudited)	As of and For the Year Ended December 31, 2017
	(Dollars in thousands)	
Average loans outstanding[1]	$ 1,216,395	$ 890,683
Gross loans held for investment outstanding at end of period[1]	$ 1,297,959	$ 975,284
Allowance for loan losses at beginning of period	$ 8,765	$ 8,162
Provision for loan losses	1,451	4,237
Charge-offs:		
Real estate:		
Construction, land and farmland	90	2
Residential	290	184
Nonfarm non-residential	—	617
Commercial	—	2,945
Consumer	73	36
Total charge-offs	453	3,784
Recoveries:		
Real estate:		
Construction, land and farmland	398	1
Residential	11	48
Nonfarm non-residential	13	23
Commercial	25	40
Consumer	63	38
Total recoveries	510	150
Net charge-offs (recoveries)	(57)	3,634
Allowance for loan losses at end of period	$ 10,273	$ 8,765
Ratio of allowance to end of period loans held for investment	0.79%	0.90%
Ratio of net charge-offs to average loans	—	0.41

(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 September 30, 2018 (Unaudited)		As of December 31, 2017	
	Amount	Percent to Total	Amount	Percent to Total
	(Dollars in thousands)			
Real estate:				
Construction and land	$ 1,634	15.9%	$ 1,421	16.2%
Farmland	102	1.0	76	0.9
1-4 family residential	1,533	14.9	1,284	14.7
Multi-family residential	145	1.4	144	1.6
Nonfarm nonresidential	2,572	25.0	2,323	26.5
Total real estate	5,986	58.2	5,248	59.9
Commercial	3,840	37.4	3,147	35.9
Consumer	447	4.4	370	4.2
Total allowance for loan losses	$ 10,273	100.0%	$ 8,765	100.0%

Securities

We use our securities portfolio to provide a source of liquidity, an appropriate return on funds invested, manage interest rate risk, meet collateral requirements, and meet regulatory capital requirements. As of September 30, 2018, the carrying amount of investment securities totaled $243.6 million, an increase of $64.4 million, or 36.0%, compared to $179.1 million as of December 31, 2017. Our securities portfolio represented 14.5% and 13.6% of total assets as of September 30, 2018 and December 31, 2017, 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 September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands) (Unaudited)			
U.S. government agencies	$ 11,675	$ —	$ 323	$ 11,352
Corporate bonds	13,057	62	230	12,889
Mortgage-backed securities	135,218	2	4,919	130,301
Municipal securities	89,651	78	1,406	88,323
Other securities	791	—	71	720
Total	$ 250,392	$ 142	$ 6,949	$ 243,585

	As of December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. government agencies	$ 9,008	$ 13	$ 68	$ 8,953
Corporate bonds	13,074	59	92	13,041
Mortgage-backed securities	81,763	2	1,824	79,941
Municipal securities	76,553	353	427	76,479
Other securities	831	—	97	734
Total	$ 181,229	$ 427	$ 2,508	$ 179,148

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 September 30, 2018, 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 September 30, 2018									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands) (Unaudited)									
U.S. government agencies	$ 996	1.11%	$ 1,020	2.26%	$ 9,336	2.84%	$ —	—%	$ 11,352	2.64%
Corporate bonds	—	—%	8,611	3.54%	4,278	5.22%	—	—%	12,889	4.09%
Mortgage-backed securities	771	1.69%	8,378	1.82%	69,166	1.87%	51,986	2.42%	130,301	2.09%
Municipal securities	10,288	1.73%	31,072	1.98%	31,360	2.17%	15,603	2.78%	88,323	2.16%
Other securities	—	—%	—	—%	—	—%	720	3.84%	720	3.84%
Total	$ 12,055	1.68%	$ 49,081	2.23%	$ 114,140	2.16%	$ 68,309	2.52%	$ 243,585	2.25%

	As of December 31, 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)									
U.S. government agencies	$ 1,004	0.96%	$ 1,000	1.11%	$ 6,949	2.46%	$ —	—%	$ 8,953	2.14%
Corporate bonds	—	—%	6,580	2.73%	6,461	4.28%	—	—%	13,041	3.50%
Mortgage-backed securities	12	0.20%	6,033	1.67%	39,619	1.50%	34,277	1.93%	79,941	1.70%
Municipal securities	7,651	1.52%	34,373	1.92%	17,434	2.27%	17,021	2.74%	76,479	2.14%
Other securities	—	—%	—	—%	—	—%	734	3.03%	734	3.03%
Total	$ 8,667	1.46%	$ 47,986	1.98%	$ 70,463	2.04%	$ 52,032	2.21%	$ 179,148	2.05%

The contractual maturity of mortgage-backed securities, collateralized mortgage obligations and asset backed securities is not a reliable indicator of their expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities and asset-backed securities are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to pre-pay. Monthly pay downs on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal and, consequently, the average life of this security will be lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of this security. The weighted average life of our investment portfolio was 4.65 years with an estimated effective duration of 43.29 months as of September 30, 2018.

As of September 30, 2018 and December 31, 2017, 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 September 30, 2018 were $1.4 billion, an increase of $298.5 million, or 28.3%, compared to $1.1 billion as of December 31, 2017, primarily due to deposits acquired from MBI and organic growth.

Noninterest-bearing deposits as of September 30, 2018 were $311.2 million, compared to $264.6 million as of December 31, 2017, an increase of $46.5 million, or 17.6%.

Average deposits for the nine months ended September 30, 2018 were $1.3 billion, an increase of $344,000, or 34.9%, over the average deposits for the year ended December 31, 2017 of $988.0 million. The average rate paid on total interest-bearing deposits increased over this period from 0.86% for the year ended December 31, 2017 to 1.04% for the nine months ended September 30, 2018. The increase in average rates during the nine months ended September 30, 2018 over the average for the year ended December 31, 2017 was primarily due to a strategic increase in deposit pricing in the latter part of 2017 in order to attract deposits and improve liquidity. In addition, the stability and continued growth of noninterest-bearing demand accounts served to reduce the cost of deposits to 0.80% for the nine months ended September 30, 2018 and 0.64% for the year ended December 31, 2017.

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

	For the Nine Months Ended September 30, 2018 (Unaudited)		For the Year Ended December 31, 2017	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)			
Interest-bearing demand accounts	$ 37,814	0.84%	$ 35,258	0.65%
Negotiable order of withdrawal (“NOW”) accounts	179,608	0.49%	116,296	0.25%
Limited access money market accounts and savings	346,575	0.67%	236,766	0.51%
Certificates and other time deposits > $250k	150,290	1.53%	75,801	1.55%
Certificates and other time deposits ≤ $250k	308,695	1.56%	269,143	1.27%
Total interest-bearing deposits	1,022,982	1.04%	733,264	0.86%
Noninterest-bearing demand accounts	309,526	—	254,765	—
Total deposits	$ 1,332,508	0.80%	$ 988,029	0.64%

The ratio of average noninterest-bearing deposits to average total deposits for the nine months ended September 30, 2018 and the year ended December 31, 2017 was 23.2% and 25.8%, 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 September 30, 2018 (Unaudited)	As of December 31, 2017
	(Dollars in thousands)	
1 year or less	$ 81,123	$ 52,402
More than 1 year but less than 3 years	46,087	21,198
3 years or more but less than 5 years	10,335	16,930
5 years or more	—	—
Total	$ 137,545	$ 90,530

Borrowings

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

FHLB advances. The Federal Home Loan Bank, or FHLB, allows us to borrow on a blanket floating lien status collateralized by certain securities and loans. As of September 30, 2018 and December 31, 2017, total borrowing capacity of $513.1 million and $399.5 million, respectively, was available under this arrangement, and $85.0 million and $75.0 million, respectively, was outstanding with a weighted average stated interest rate of 2.42% as of September 30, 2018 and 1.96% as of December 31, 2017. Our current FHLB advances mature within five years. We utilize these borrowings to meet liquidity needs and to fund certain fixed rate loans in our portfolio.

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

		FHLB Advances (Dollars in Thousands)
September 30, 2018		
Amount outstanding at quarter-end	$	85,000
Weighted average stated interest rate at quarter-end		2.42%
Maximum month-end balance during the quarter	$	85,000
Average balance outstanding during the quarter	$	85,000
Weighted average interest rate during the quarter		2.36%
December 31, 2017		
Amount outstanding at year-end	$	75,000
Weighted average stated interest rate at year-end		1.96%
Maximum month-end balance during the year	$	75,000
Average balance outstanding during the year	$	65,513
Weighted average interest rate during the year		1.13%

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 $2.4 million and $2.7 million at September 30, 2018 and December 31, 2017, respectively. This advance carries a variable interest equal to the Wall Street Journal Prime rate. The rate was 5.25% and 4.50% at September 30, 2018 and December 31, 2017, respectively, adjusts based on changes in the index rate. This FNBB long term advance was established for the purpose of paying off the revolving line of credit with First Tennessee National Association.

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

		FNBB Long Term Advances (Dollars in Thousands)
September 30, 2018		
Amount outstanding at quarter-end	$	2,400
Weighted average stated interest rate at quarter-end		5.25%
Maximum month-end balance during the quarter	$	2,700
Average balance outstanding during the quarter	$	2,638
Weighted average interest rate during the quarter		5.01%
December 31, 2017		
Amount outstanding at year-end	$	2,700
Weighted average stated interest rate at year-end		4.50%
Maximum month-end balance during the year	$	3,000
Average balance outstanding during the year	$	2,924
Weighted average interest rate during the year		4.09%

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 September 30, 2018 and December 31, 2017. The line of credit bears a variable interest rate equal to the Wall Street Journal Prime rate. The rate was 5.25% and 4.50% at September 30, 2018 and December 31, 2017, respectively, and adjusts based on changes in the index rate. This FNBB line matured on September 12, 2017 and renewed on September 29, 2017 for another one year term on the same terms. This FNBB line was extended on September 28, 2018 for three months on the same terms, and will mature on November 29, 2018. This FNBB line 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)
September 30, 2018	
Amount outstanding at quarter-end	$ 862
Weighted average stated interest rate at quarter-end	5.25%
Maximum month-end balance during the quarter	$ 862
Average balance outstanding during the quarter	$ 862
Weighted average interest rate during the quarter	5.01%
December 31, 2017	
Amount outstanding at year-end	$ 862
Weighted average stated interest rate at year-end	4.50%
Maximum month-end balance during the year	$ 862
Average balance outstanding during the year	$ 862
Weighted average interest rate during the year	4.09%

Correspondent Bank Federal Funds Purchased Relationships

We maintain Federal Funds Purchased Relationships with the following financial institutions with the limits set forth below as of September 30, 2018:

	(Dollars in Thousands)
FNBB	$ 35,000
The Independent Bankers Bank	$ 25,000
Compass Bank	$ 22,500
First Tennessee National Bank	$ 17,000
ServisFirst Bank	$ 10,000
Center State Bank	$ 9,000

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

	Federal Funds Purchased (Dollars in Thousands)
September 30, 2018	
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	$ —
Weighted average interest rate during the quarter	—%
December 31, 2017	
Amount outstanding at year-end	$ —
Weighted average interest rate at year-end	—%
Maximum month-end balance during the year	$ —
Average balance outstanding during the year	$ 190
Weighted average interest rate during the year	1.72%

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 nine months ended September 30, 2018 and the year ended December 31, 2017, 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 September 30, 2018 and December 31, 2017, we maintained six lines of credit with commercial banks which provided for extensions of credit with an availability to borrow up to an aggregate of $118.5 million and $113.5 million, respectively. There were no funds under these lines of credit outstanding as of September 30, 2018 or December 31, 2017.

The following table illustrates, during the periods presented, the mix of our funding sources and the average assets in which those funds are invested as a percentage of average total assets for the periods indicated. Average total assets equaled $1.6 billion and $1.2 billion for the nine months ended September 30, 2018 and the year ended December 31, 2017, respectively.

	For the Nine Months Ended September 30, 2018 (Unaudited)	For the Year Ended December 31, 2017
Sources of Funds:		
Deposits:		
Noninterest-bearing	18.9%	21.2%
Interest-bearing	62.6%	61.1%
Advances from FHLB	5.2%	5.5%
Other borrowings	1.1%	0.5%
Other liabilities	0.5%	0.7%
Shareholders' equity	11.7%	11.0%
Total	100.0%	100.0%
Uses of Funds:		
Loans, net of allowance for loan losses	73.8%	73.5%
Securities available for sale	15.5%	16.3%
Interest-bearing deposits in other banks	2.0%	1.7%
Other noninterest-earning assets	8.7%	8.5%
Total	100.0%	100.0%
Average noninterest-bearing deposits to average deposits	23.2%	25.8%
Average loans to average deposits	91.3%	90.1%

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 40.3% for the nine months ended September 30, 2018 compared to the same period in 2017, primarily due to the acquisition of MBI and organic growth. We predominantly invest excess deposits in overnight deposits with the Federal Reserve, securities, interest-bearing deposits at other banks or other short-term liquid investments until needed to fund loan growth. Our securities portfolio had a weighted average life of 4.65 years and an effective duration of 43.29 months as of September 30, 2018. As of December 31, 2017, our securities portfolio had a weighted average life of 4.78 years and an effective duration of 41.19 months.

As of September 30, 2018, we had outstanding $274.0 million in commitments to extend credit and $11.3 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2017, we had outstanding $256.9 million in commitments to extend credit and $9.5 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 September 30, 2018 and December 31, 2017, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature. As of September 30, 2018, we had cash and cash equivalents of $45.9 million compared to $107.6 million as of December 31, 2017. The decrease in cash and cash equivalents was primarily due to the payment of $56.2 million in cash to MBI's shareholders in connection with the acquisition.

Capital Resources

Total shareholders' equity increased to $213.0 million as of September 30, 2018, compared to $179.9 million as of December 31, 2017, an increase of $33.0 million, or 18.4%. This increase was primarily due to a capital offering resulting in $27.2 million in net proceeds and $10.6 million in net income, offset with $3.7 million in the change in unrealized losses on our investment portfolio and $2.4 million in paid dividends.

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.

On October 18, 2018, our Board of Directors (the "Board") declared a quarterly dividend based upon our financial performance for the three months ended September 30, 2018 in the amount of $0.08 per share to the common shareholders of record as of November 15, 2018. The dividend is to be paid on November 30, 2018, or as soon as practicable thereafter.

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 September 30, 2018 and December 31, 2017, 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 September 30, 2018 (Unaudited)		As of December 31, 2017	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Business First Bancshares, Inc. (Consolidated)				
Total capital (to risk weighted assets)	$ 191,851	13.04%	$ 181,565	15.23%
Tier 1 capital (to risk weighted assets)	181,578	12.35%	172,800	14.49%
Common Equity Tier 1 capital (to risk weighted assets)	181,578	12.35%	172,800	14.49%
Tier 1 Leverage capital (to average assets)	181,578	11.11%	172,800	13.53%
Business First Bank				
Total capital (to risk weighted assets)	$ 178,391	12.14%	$ 120,806	10.24%
Tier 1 capital (to risk weighted assets)	168,118	11.44%	112,041	9.50%
Common Equity Tier 1 capital (to risk weighted assets)	168,118	11.44%	112,041	9.50%
Tier 1 Leverage capital (to average assets)	168,118	10.29%	112,041	8.78%

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 September 30, 2018 and December 31, 2017 (other than non-maturity deposit obligations), which consist of future cash payments associated with our contractual obligations pursuant to our FHLB short term 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 $85.0 million and $75.0 million at September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018 and December 31, 2017, the FHLB short term advances were collateralized by a blanket floating lien on certain securities and loans, had a weighted average stated rate of 2.42% and 1.96%, respectively, and maturities ranging from 2018 through 2022. The advance under the FNBB long-term borrowing totaled $2.4 million and $2.7 million at September 30, 2018 and December 31, 2017, respectively. 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 5.25% and 4.50% at September 30, 2018 and December 31, 2017, respectively, and maturing in 2026. We also had a line of credit with FNBB with an outstanding balance of $862,000 at both September 30, 2018 and December 31, 2017. 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 5.25% and 4.50% at September 30, 2018 and December 31, 2017, respectively. This line of credit matured in September 2017 and was renewed on the same terms for a one year term to mature on September 29, 2018. On September 28, 2018 this line was extended for three months on the same terms, and will mature on November 29, 2018.

	As of September 30, 2018				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands) (Unaudited)				
Non-cancelable future operating leases	$ 2,571	$ 2,763	$ 1,945	$ 4,623	$ 11,902
Time deposits	324,848	124,863	28,448	—	478,159
Advances from FHLB	55,000	—	30,000	—	85,000
Advances from FNBB	1,162	600	600	900	3,262
Securities sold under agreements to repurchase	14,310	—	—	—	14,310
Standby and commercial letters of credit	8,589	2,453	209	—	11,251
Commitments to extend credit	151,946	89,871	9,005	23,150	273,972
Total	$ 558,426	$ 220,550	$ 70,207	$ 28,673	$ 877,856

	As of December 31, 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
	(Dollars in thousands)				
Non-cancelable future operating leases	$ 2,354	$ 3,403	$ 2,150	$ 5,282	$ 13,189
Time deposits	252,493	67,298	34,468	150	354,409
Advances from FHLB	45,000	—	30,000	—	75,000
Advances from FNBB	1,162	600	600	1,200	3,562
Securities sold under agreements to repurchase	1,939	—	—	—	1,939
Standby and commercial letters of credit	5,107	4,385	—	—	9,492
Commitments to extend credit	132,269	88,307	6,144	30,149	256,869
Total	$ 440,324	$ 163,993	$ 73,362	$ 36,781	$ 714,460

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 September 30, 2018				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands) (Unaudited)				
Standby and commercial letters of credit	$ 8,589	$ 2,453	$ 209	$ —	$ 11,251
Commitments to extend credit	151,946	89,871	9,005	23,150	273,972
Total	$ 160,535	$ 92,324	$ 9,214	$ 23,150	$ 285,223

	As of December 31, 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
	(Dollars in thousands)				
Standby and commercial letters of credit	$ 5,107	$ 4,385	$ —	$ —	$ 9,492
Commitments to extend credit	132,269	88,307	6,144	30,149	256,869
Total	$ 137,376	$ 92,692	$ 6,144	$ 30,149	$ 266,361

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 September 30, 2018		As of December 31, 2017	
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	4.50%	(2.33%)	3.00%	(3.54%)
+200	2.30%	(1.68%)	1.50%	(2.53%)
+100	0.50%	(0.54%)	0.30%	(0.11%)
Base	0.00%	0.00%	0.00%	0.00%
-100	(4.20%)	(0.07%)	(2.20%)	(1.28%)

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

Impact of Inflation

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

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

Non-GAAP Financial Measures

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

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

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

Core Net Income. Notable noncore events impacting earnings during the three and nine months ended September 30, 2017 includes the sale of a participation interest in an impaired credit acquired from American Gateway in 2015, which resulted in an increase in interest income of $317,000 and $2.8 million for the three and nine months ended September 30, 2017, respectively. We incurred $509,000 and $1.4 million in noninterest expenses related to acquisition-related activities (including, but not limited to, severance and retention, system conversion, legal costs, etc.) in the three and nine months ended September 30, 2018, respectively. We incurred $139,000 in losses associated with the closure of a banking center during the three and nine months ended September 30, 2018. We also incurred $118,000 in noninterest expenses associated with share awards granted to all nonexecutives for our NASDAQ listing commencement on April 9, 2018 for the nine months ended September 30, 2018. Core net income, which excludes noncore income and expenses, for the three months ended September 30, 2018 was $4.4 million, or $0.37 per diluted share, compared to core net income of $1.5 million, or $0.20 per diluted share, for the three months ended September 30, 2017. As adjusted, core return on average assets and core return on average equity, in each case on an annualized basis, were 1.06% and 8.37% for the three months ended September 30, 2018, compared to 0.50% and 4.91% for the three months ended September 30, 2017. Core net income for the nine months ended September 30, 2018 was $12.1 million, or $1.07 per diluted share, compared to core net income of $3.9 million, or $0.53 per diluted share, for the nine months ended September 30, 2017. As adjusted, core return on average assets and core return on average equity, in each case on an annualized basis, were 0.98% and 8.44% for the nine months ended September 30, 2018, compared to 0.45% and 4.44% for the nine months ended September 30, 2017.

	For the Three Months Ended September 30, (Unaudited)		For the Nine Months Ended September 30, (Unaudited)	
	2018	2017	2018	2017
	(Dollars in thousands, except per share data)			
Core Net Income				
Net income	$ 3,900	$ 1,682	$ 10,646	$ 5,710
Adjustments (net of tax): [1]				
Sale of participation interest in impaired credit	—	(209)	—	(1,815)
Employee share awards – NASDAQ listing	—	—	93	—
Gain/Loss on former bank premises and equipment	110	—	110	—
Acquisition-related expenses	419	—	1,223	—
Core net income	$ 4,429	$ 1,473	$ 12,072	$ 3,895
Average common shares outstanding	11,533,374	6,932,570	10,795,989	6,926,684
Average diluted shares outstanding	11,993,734	7,315,352	11,256,349	7,309,466
Core earnings per share - basic	$ 0.38	$ 0.21	$ 1.12	$ 0.56
Core earnings per share - diluted	0.37	0.20	1.07	0.53
Total quarterly / year-to-date average assets	1,666,117	1,187,553	1,635,022	1,165,325
Total quarterly / year-to-date average equity	211,631	119,929	190,655	116,939
Core return on average assets	1.06%	0.50%	0.98%	0.45%
Core return on average equity	8.37	4.91	8.44	4.44

(1) Tax rates, exclusive of certain merger-related expenses, utilized were 21% and 35%, respectively, for 2018 and 2017. These rates approximated the marginal tax rates for the applicable periods.

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

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

	As of September 30, (Unaudited)		As of December 31,
	2018	2017	2017
	(Dollars in thousands, except per share data)		
Tangible Common Equity			
Total shareholders' equity	$ 212,961	$ 120,059	$ 179,935
Adjustments:			
Goodwill	(32,427)	(6,824)	(6,824)
Core deposit and other intangibles	(4,103)	(2,072)	(2,003)
Total tangible common equity	$ 176,431	$ 111,163	$ 171,108
Common shares outstanding(1)	11,533,721	6,932,570	10,232,495
Book value per common share	$ 18.46	$ 17.32	$ 17.58
Tangible book value per common share	15.30	16.03	16.72

(1) Excludes the dilutive effect, if any, of 867,705, 1,011,105, and 918,705 shares of common stock issuable upon exercise of outstanding stock options and warrants as of September 30, 2018, September 30, 2017, and December 31, 2017, respectively.

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

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

	As of September 30, (Unaudited)		As of December 31,
	2018	2017	2017
	(Dollars in thousands, except per share data)		
Tangible Common Equity			
Total shareholders' equity	$ 212,961	$ 120,059	$ 179,935
Adjustments:			
Goodwill	(32,427)	(6,824)	(6,824)
Core deposit and other intangibles	(4,103)	(2,072)	(2,003)
Total tangible common equity	$ 176,431	$ 111,163	$ 171,108
Tangible Assets			
Total assets	$ 1,678,195	$ 1,213,831	$ 1,321,256
Adjustments:			
Goodwill	(32,427)	(6,824)	(6,824)
Core deposit and other intangibles	(4,103)	(2,072)	(2,003)
Total tangible assets	$ 1,641,665	$ 1,204,935	$ 1,312,429
Common Equity to Total Assets	12.7%	9.9%	13.6%
Tangible Common Equity to Tangible Assets	10.7	9.2	13.0

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, 2017 filed with the SEC, and in "Risk Factors" in the Company's prospectus supplement filed with the SEC on June 5, 2018 under Registration Statement on Form S-3 (No. 333-224692) and prospectus filed with the SEC on October 23, 2018 under Registration Statement on Form S-4 (No. 333-227085).

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

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Number	Description
2.1	Agreement and Plan of Reorganization by and between Business First Bancshares, Inc. and Richland State Bancorp, Inc., dated June 1, 2018 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on June 4, 2018 (File No. 001-38447)).
3.1	Amended and Restated Articles of Incorporation of Business First Bancshares, Inc., adopted September 28, 2017 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on October 2, 2017 (File No. 333-200112)).
3.2	Amended and Restated Bylaws of Business First Bancshares, Inc., adopted August 23, 2017 (incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2017 filed by Business First Bancshares, Inc. on November 9, 2017 (File No. 333-200112)).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).
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.

November 9, 2018

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

November 9, 2018

/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: November 9, 2018

/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: November 9, 2018

/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 September 30, 2018 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: November 9, 2018

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

/s/ Gregory Robertson
Gregory Robertson
Chief Financial Officer