UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

or

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

For the transition period from _____ to _____

Commission file number: 001-38447

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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.00 per share	BFST	NASDAQ Global Select Market

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

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

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

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

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

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

As of October 31, 2020, the issuer has outstanding 20,667,237 shares of common stock, par value $1.00 per share.

BUSINESS FIRST BANCSHARES, INC.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2020 (Unaudited)	December 31, 2019
ASSETS		
Cash and Due from Banks	$ 103,894	$ 89,371
Federal Funds Sold	8,395	61,372
Securities Available for Sale, at Fair Values	547,535	278,193
Mortgage Loans Held for Sale	671	251
Loans and Lease Receivable, Net of Allowance for Loan Losses of $20,340 at September 30, 2020 and $12,124 at December 31, 2019	3,062,134	1,698,141
Premises and Equipment, Net	59,241	29,280
Accrued Interest Receivable	25,622	8,025
Other Equity Securities	15,641	12,565
Other Real Estate Owned	10,994	4,036
Cash Value of Life Insurance	44,779	32,568
Deferred Taxes	5,829	2,145
Goodwill	53,627	48,495
Core Deposit Intangible	10,061	6,694
Other Assets	6,247	2,699
Total Assets	$ 3,954,670	$ 2,273,835
LIABILITIES		
Deposits:		
Noninterest Bearing	$ 945,485	$ 398,847
Interest Bearing	2,290,776	1,383,163
Total Deposits	3,236,261	1,782,010
Securities Sold Under Agreements to Repurchase	24,604	67,989
Short Term Borrowings	5,033	-
Long Term Borrowings	6,000	-
Paycheck Protection Program Liquidity Facility	107,076	-
Federal Home Loan Bank Borrowings	117,950	93,000
Subordinated Debt	25,000	25,000
Subordinated Debt - Trust Preferred Securities	5,000	-
Accrued Interest Payable	3,621	1,533
Other Liabilities	26,039	19,206
Total Liabilities	3,556,584	1,988,738
Commitments and Contingencies (See Note 8)		
SHAREHOLDERS' EQUITY		
Preferred Stock, No Par Value; 5,000,000 Shares Authorized	-	-
Common Stock, $1 Par Value; 50,000,000 Shares Authorized; 20,667,237 and 13,279,363 Shares Issued and Outstanding at September 30, 2020 and December 31, 2019, respectively	20,667	13,279
Additional Paid-in Capital	299,762	212,505
Retained Earnings	67,399	56,700
Accumulated Other Comprehensive Income	10,258	2,613
Total Shareholders' Equity	398,086	285,097
Total Liabilities and Shareholders' Equity	$ 3,954,670	$ 2,273,835

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,	
	2020	2019	2020	2019
Interest Income:				
Interest and Fees on Loans	$ 39,918	$ 24,408	$ 98,697	$ 70,701
Interest and Dividends on Securities	2,474	1,783	6,380	5,486
Interest on Federal Funds Sold and Due From Banks	69	129	291	616
Total Interest Income	42,461	26,320	105,368	76,803
Interest Expense:				
Interest on Deposits	4,345	5,050	13,826	14,845
Interest on Borrowings	1,184	1,012	3,480	2,387
Total Interest Expense	5,529	6,062	17,306	17,232
Net Interest Income	36,932	20,258	88,062	59,571
Provision for Loan Losses	2,491	479	9,301	2,414
Net Interest Income after Provision for Loan Losses	34,441	19,779	78,761	57,157
Other Income:				
Service Charges on Deposit Accounts	1,592	1,035	3,686	3,007
Gain on Sales of Securities	95	26	120	84
Other Income	2,530	861	8,211	5,361
Total Other Income	4,217	1,922	12,017	8,452
Other Expenses:				
Salaries and Employee Benefits	15,430	8,793	42,486	26,101
Occupancy and Equipment Expense	3,228	2,135	8,007	5,913
Other Expenses	8,293	3,950	20,898	11,231
Total Other Expenses	26,951	14,878	71,391	43,245
Income Before Income Taxes	11,707	6,823	19,387	22,364
Provision for Income Taxes	2,098	1,312	3,227	4,351
Net Income	$ 9,609	$ 5,511	$ 16,160	$ 18,013
Earnings Per Share:				
Basic	$ 0.47	$ 0.41	$ 0.93	$ 1.35
Diluted	$ 0.46	$ 0.40	$ 0.93	$ 1.32

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,	
	2020	2019	2020	2019
Consolidated Net Income	$ 9,609	$ 5,511	$ 16,160	$ 18,013
Other Comprehensive Income:				
Unrealized Gain on Investment Securities	2,168	657	9,282	7,888
Unrealized Gain on Other Equity Securities	407	-	407	-
Reclassification Adjustment for Gains included in Net Income	(95)	(26)	(120)	(84)
Income Tax Effect	(435)	(133)	(1,924)	(1,639)
Other Comprehensive Income	2,045	498	7,645	6,165
Consolidated Comprehensive Income	$ 11,654	$ 6,009	$ 23,805	$ 24,178

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 THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(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 June 30, 2019	$ 13,361	$ 213,823	$ 48,087	$ 2,198	$ 277,469
Comprehensive Income:					
Net Income	-	-	5,511	-	5,511
Other Comprehensive Income	-	-	-	498	498
Cash Dividends Declared, $0.10 Per Share	-	-	(1,333)	-	(1,333)
Stock Issuance	25	339	-	-	364
Stock Based Compensation Cost	-	384	-	-	384
Common Stock Repurchase	(111)	(2,442)	-	-	(2,553)
Balances at September 30, 2019	$ 13,275	$ 212,104	$ 52,265	$ 2,696	$ 280,340
Balances at June 30, 2020	$ 20,667	$ 297,606	$ 59,850	$ 8,213	$ 386,336
Comprehensive Income:					
Net Income	-	-	9,609	-	9,609
Other Comprehensive Income	-	-	-	2,045	2,045
Cash Dividends Declared, $0.10 Per Share	-	-	(2,060)	-	(2,060)
Stock Based Compensation Cost	-	1,359	-	-	1,359
Other Stock Based Compensation	-	797	-	-	797
Balances at September 30, 2020	$ 20,667	$ 299,762	$ 67,399	$ 10,258	$ 398,086

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, 2020 AND 2019
(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, 2018	$ 13,213	$ 212,332	$ 37,982	$ (3,469)	$ 260,058
Comprehensive Income:					
Net Income	-	-	18,013	-	18,013
Other Comprehensive Income	-	-	-	6,165	6,165
Cash Dividends Declared, $0.28 Per Share	-	-	(3,730)	-	(3,730)
Stock Issuance	139	1,493	-	-	1,632
Stock Based Compensation Cost	44	919	-	-	963
Surrendered Shares of Stock Based Compensation	(10)	(198)	-	-	(208)
Common Stock Repurchase	(111)	(2,442)	-	-	(2,553)
Balances at September 30, 2019	$ 13,275	$ 212,104	$ 52,265	$ 2,696	$ 280,340
Balances at December 31, 2019	$ 13,279	$ 212,505	$ 56,700	$ 2,613	$ 285,097
Comprehensive Income:					
Net Income	-	-	16,160	-	16,160
Other Comprehensive Income	-	-	-	7,645	7,645
Cash Dividends Declared, $0.30 Per Share	-	-	(5,461)	-	(5,461)
Stock Issuance	7,947	94,097	-	-	102,044
Surrendered Shares of Options Exercised	(173)	(4,148)	-	-	(4,321)
Stock Based Compensation Cost	49	1,873	-	-	1,922
Common Stock Repurchase	(435)	(4,565)	-	-	(5,000)
Balances at September 30, 2020	$ 20,667	$ 299,762	$ 67,399	$ 10,258	$ 398,086

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,	
	2020	2019
Cash Flows From Operating Activities:		
Consolidated Net Income	$ 16,160	$ 18,013
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	9,301	2,414
Depreciation and Amortization	2,154	1,223
Net Accretion of Purchase Accounting Adjustments	(4,529)	(1,336)
Stock Based Compensation Cost	1,922	755
Net Amortization of Securities	3,458	1,268
Gain on Sales of Securities	(120)	(84)
Income on Other Equity Securities	(2,473)	(1,495)
(Gain) Loss on Sale of Other Real Estate Owned, Net of Writedowns	169	(27)
Increase in Cash Value of Life Insurance	(689)	(516)
Credit for Deferred Income Taxes	(5,608)	(216)
Gain on Sale of Branch	-	(581)
Changes in Assets and Liabilities:		
(Increase) Decrease in Accrued Interest Receivable	(12,375)	710
(Increase) Decrease in Other Assets	4,276	(325)
Increase (Decrease) in Accrued Interest Payable	(572)	463
Increase in Other Liabilities	4,068	1,235
Net Cash Provided by Operating Activities	15,142	21,501
Cash Flows From Investing Activities:		
Purchases of Securities Available for Sale	(107,977)	(24,162)
Proceeds from Maturities / Sales of Securities Available for Sale	56,137	22,825
Proceeds from Paydowns of Securities Available for Sale	52,920	29,242
Net Cash Received in Acquisition	106,000	-
Net Cash Paid in Sale of Branch	-	(17,448)
Purchases of Other Equity Securities	(571)	(3,030)
Redemption of Other Equity Securities	5,513	1,110
Net Increase in Loans	(477,621)	(172,190)
Purchases of Premises and Equipment	(2,729)	(2,034)
Loss on Disposal of Premises and Equipment	627	650
Proceeds from Sales of Other Real Estate	1,790	891
Net (Increase) Decrease in Federal Funds Sold	52,977	(1,869)
Net Cash Used in Investing Activities	(312,934)	(166,015)

(CONTINUED)

	For The Nine Months Ended September 30,	
	2020	2019
Cash Flows From Financing Activities:		
Net Increase in Deposits	278,184	24,641
Net Increase (Decrease) in Securities Sold Under Agreements to Repurchase	(45,988)	18,808
Net Advances (Repayments) on Federal Home Loan Bank Borrowings	(15,121)	73,000
Net Proceeds from Short Term Borrowings	1,382	-
Net Proceeds from Long Term Borrowings	105,279	-
Proceeds from Issuance of Common Stock	3,361	756
Surrendered Shares of Options Exercised	(4,321)	-
Repurchase of Common Stock	(5,000)	(2,553)
Proceeds from Exercise of Stock Warrants	-	876
Payment of Dividends on Common Stock	(5,461)	(3,730)
Net Cash Provided by Financing Activities	312,315	111,798
Net Increase (Decrease) in Cash and Cash Equivalents	14,523	(32,716)
Cash and Cash Equivalents at Beginning of Period	89,371	96,072
Cash and Cash Equivalents at End of Period	$ 103,894	$ 63,356
Supplemental Disclosures for Cash Flow Information:		
Cash Payments for:		
Interest on Deposits	$ 12,025	$ 14,402
Interest on Borrowings	$ 3,193	$ 2,367
Income Tax Payments	$ 3,595	$ 4,500
Supplemental Schedule for Noncash Investing and Financing Activities:		
Change in the Unrealized Gain on Securities Available for Sale	$ 9,162	$ 7,804
Change in the Unrealized Gain on Equity Securities	$ 407	$ -
Change in Deferred Tax Effect on the Unrealized Gain on Securities Available for Sale	$ (1,924)	$ (1,639)
Transfer of Loans to Other Real Estate	$ 1,227	$ 1,310
Transfer of Premises and Equipment to Other Real Estate	$ 5,970	$ -
Acquisitions:		
Fair Value of Tangible Assets Acquired	$ 1,331,199	$ -
Other Intangible Assets Acquired	4,211	-
Liabilities Assumed	1,241,858	-
Net Identifiable Assets Acquired Over Liabilities Assumed	$ 93,552	$ -

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 subsidiaries, b1BANK (the "Bank"), and the Bank's wholly-owned subsidiary, Business First Insurance, LLC. The Bank operates out of branch locations in markets across Louisiana and Texas. As a state bank, it is subject to regulation by the Office of Financial Institutions, State of Louisiana, and the Federal Deposit Insurance Corporation, and undergoes periodic examinations by these agencies. The Company is also regulated by the Federal Reserve and is subject to periodic examinations.

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

These interim consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission and, therefore, certain information and footnote disclosures normally presented in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") have been omitted or abbreviated. These interim financial statements should be read in conjunction with the audited consolidated financial statements and footnote disclosures for the Company's previously filed Form 10-K for the year ended December 31, 2019.

COVID-19, a global pandemic, has adversely impacted the broad economy, including most industries and sectors. The length and depth of the pandemic will ultimately determine the overall financial impact to the Company, but it could impair our customer's ability to meet their financial obligations to us. Furthermore, while there has been no material impact to the Company's employees to date, COVID-19 could potentially create business continuity issues for the Company.

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. 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.

Acquired Loans

Purchased loans acquired in a business combination are recorded at their estimated fair value as of the acquisition date and there is no carryover of the seller's allowance for loan losses.

The Company accounts for acquired impaired loans in accordance with ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC* 310-30*").* An acquired loan is considered impaired when there is evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will be unable to collect all contractually required payments. Purchased impaired credits (i.e., loans) are accounted for individually or aggregated into loan pools with similar risk characteristics, which include: the loan type by regulatory guidelines, nature of the collateral/loan, relative amount of fair value discount to credit, amongst other factors.. The Company estimates the amount and timing of undiscounted expected cash flows for each loan, and the expected cash flows in excess of fair value is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over the expected cash flows is not recorded (nonaccretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the expected cash flows decrease, a provision for loan losses and the establishment of an allowance for loan losses with respect to the acquired impaired loan is recorded. If the expected cash flows increase, it is recognized as part of future interest income.

The performing loans are accounted for under ASC 310-20, *Nonrefundable Fees and Other Costs ("ASC* 310-20*")*, with the related discount or premium being adjusted for over the life of the loan and recognized as interest income.

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

Note 2 – Reclassifications –

Certain reclassifications may have been made to conform to the classifications adopted for reporting in 2020. These reclassifications have no material effect on previously reported shareholder's equity and net income.

Note 3 – Mergers and Acquisitions –

On May 1, 2020, the Company consummated the merger of Pedestal Bancshares, Inc. ("Pedestal"), headquartered in Houma, Louisiana, with and into the Company, pursuant to the terms of that certain Agreement and Plan of Reorganization (the "Reorganization Agreement"), dated as of January 22, 2020, by and between the Company and Pedestal (the "Merger"). Also on May 1, 2020, Pedestal's wholly owned banking subsidiary, Pedestal Bank, was merged with and into b1BANK. Pursuant to the terms of the Reorganization Agreement, upon consummation of the Merger, we issued 7,614,506 shares of our common stock to the former shareholders of Pedestal. At April 30, 2020, Pedestal reported $1.4 billion in total assets, $935.8 million in loans and $1.2 billion in deposits.

The following table reflects the consideration paid for Pedestal's net assets and the identifiable assets purchased and liabilities assumed at their estimated fair values as of May 1, 2020. The fair values are provisional estimates and may be adjusted for a period of up to one year ("measurement period") from the date of acquisition if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date.

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

Purchase Price:		
Shares Issued to Pedestal Shareholders on May 1, 2020		7,614,506
Closing Stock Price on May 1, 2020	$	12.96
Total Purchase Price	$	98,684
Net Assets Acquired:		
Cash and Cash Equivalents	$	106,000
Securities Available for Sale		264,517
Loans and Leases Receivable		893,295
Premises and Equipment, Net		35,983
Cash Value of Life Insurance		11,522
Core Deposit Intangible		4,211
Other Assets		19,882
Total Assets		1,335,410
Deposits		1,177,137
Borrowings		59,399
Other Liabilities		5,322
Total Liabilities		1,241,858
Net Assets Acquired		93,552
Goodwill Resulting from Merger	$	5,132

The Company has recorded approximately $9.0 million of acquisition-related costs within merger and conversion-related expenses and salaries and benefits through September 30, 2020.

The following is a description of the methods used to determine the fair values of significant assets acquired and liabilities assumed presented above.

Cash and Cash Equivalents: The carrying amount of these assets was a reasonable estimate of fair value based on the short-term nature of these assets.

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

Securities Available for Sale: Fair values for securities were based on quoted market prices, where available. If quoted market prices were not available, fair value estimates were based on observable inputs including quoted market prices for similar instruments, quoted market prices that were not in an active market or other inputs that were observable in the market. In the absence of observable inputs, fair value was estimated based on pricing models/estimations.

Loans and Leases Receivable: Fair values for loans were based on a discounted cash flow methodology that considered factors including, but not limited to, loan type, classification status, remaining term, prepayment speed, and current discount rates. The discount rates used for loans were based on current market rates for new originations of comparable loans and included adjustments for any liquidity concerns. The discount rate did not include an explicit factor for credit losses, as that was included within the estimated cash flows.

Core Deposit Intangible: The fair value for core deposit intangible assets was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, net maintenance cost of the deposit base, including interest cost, and alternative cost of funds. The CDI is being amortized over 10 years based upon the period over which estimated economic benefits are estimated to be received.

Deposits: The fair values used for the demand and savings deposits, by definition, equal the amount payable on demand at the acquisition date. Fair values for time deposits were estimated using a discounted cash flow analysis, that applied interest rates currently being offered to the contractual interest rates on such time deposits.

Borrowings: Fair values for borrowings were based on market values and market rates provided by the FHLB.

The following unaudited supplemental pro forma information is presented to reflect estimated results assuming Pedestal was acquired as of January 1, 2019. 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, 2019 and should not be considered representative of future operating results.

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands, except per share data)			
Interest Income	$ 42,461	$ 43,495	$ 126,232	$ 127,539
Interest Expense	5,529	7,882	19,485	22,497
Net Interest Income	36,932	35,613	106,747	105,042
Provision for Loan Losses	2,491	479	9,301	2,414
Net Interest Income after Provision for Loan Losses	34,441	35,134	97,446	102,628
Noninterest Income	4,217	4,983	16,548	17,019
Noninterest Expense	25,895	24,735	76,440	73,899
Income Before Income Taxes	12,763	15,382	37,554	45,748
Income Tax Expense	2,320	3,109	7,042	9,262
Net Income	$ 10,443	$ 12,273	$ 30,512	$ 36,486
Earnings Per Common Share				
Basic	$ 0.51	$ 0.59	$ 1.48	$ 1.74
Diluted	$ 0.50	$ 0.58	$ 1.47	$ 1.71

This pro forma information combines the historical consolidated results of operations of the Company and Pedestal for the periods presented and gives effect to the following adjustments:

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

Fair value adjustments: Pro forma adjustment to net interest income of $2.4 million for the three months ended September 30, 2019 and $7.1 million for the nine months ended September 30, 2019 to record estimated amortization of premiums and accretion of discounts on acquired loans, borrowings, and deposits. Pro forma adjustment to net interest income of $3.1 million for the nine months ended September 30, 2020 to record estimated amortization of premiums and accretion of discounts on acquired loans, borrowings, and deposits.

Pedestal's provision for loan losses: Pro forma adjustments were made to provision for loan losses of $280,000 for the three months ended September 30, 2019, $1.7 million for the nine months ended September 30, 2019, and $650,000 for the nine months ended September 30, 2020 to eliminate Pedestal's provision for loan losses. The additional provision for loan loss on new loans over those periods was deemed immaterial and not adjusted for in the pro forma information.

Noninterest Expense: Pro forma adjustments for all periods presented include adjustments for the amortization of intangible assets acquired from Pedestal. Nonrecurring acquisition -related expenses of $1.2 million were removed for the three months ended September 30, 2020 and $9.0 million for the nine months ended September 30, 2020.

Provision for Income Taxes: Pro forma adjustments for all historical Pedestal periods combined included a tax expense adjustment of 21%, as Pedestal was an S-Corp prior to its acquisition by the Company.

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 options and unvested restricted stock awards ("RSAs"), excluding any that were antidilutive.

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands, except per share data)			
Numerator:				
Net Income Available to Common Shares	$ 9,609	$ 5,511	$ 16,160	$ 18,013
Denominator:				
Weighted Average Common Shares Outstanding	20,613,481	13,315,351	17,356,830	13,321,566
Dilutive Effect of Stock Options and RSAs	90,963	354,019	52,991	354,019
Weighted Average Dilutive Common Shares	20,704,444	13,669,370	17,409,821	13,675,585
Basic Earnings Per Common Share From Net Income Available to Common Shares	$ 0.47	$ 0.41	$ 0.93	$ 1.35
Diluted Earnings Per Common Share From Net Income Available to Common Shares	$ 0.46	$ 0.40	$ 0.93	$ 1.32

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Note 5 – Securities –

The amortized cost and fair values of securities available for sale as of September 30, 2020 and December 31, 2019 are summarized as follows:

	September 30, 2020 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$ 2,582	$ 5	$ -	$ 2,587
Corporate Securities	30,020	199	111	30,108
Mortgage-Backed Securities	285,348	7,231	160	292,419
Municipal Securities	215,672	5,217	55	220,834
Other Securities	1,444	143	-	1,587
Total Securities Available for Sale	$ 535,066	$ 12,795	$ 326	$ 547,535

	December 31, 2019 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$ 15,654	$ 303	$ 20	$ 15,937
Corporate Securities	23,774	98	158	23,714
Mortgage-Backed Securities	137,817	2,139	497	139,459
Municipal Securities	97,641	1,447	5	99,083
Other Securities	-	-	-	-
Total Securities Available for Sale	$ 274,886	$ 3,987	$ 680	$ 278,193

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The following tables present a summary of securities with gross unrealized losses and fair values at September 30, 2020 and December 31, 2019, 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, 2020					
	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	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Securities	3,231	26	2,415	85	5,646	111
Mortgage-Backed Securities	32,542	159	20	1	32,562	160
Municipal Securities	10,842	55	380	-	11,222	55
Other Securities	-	-	-	-	-	-
Total Securities Available for Sale	$ 46,615	$ 240	$ 2,815	$ 86	$ 49,430	$ 326

	December 31, 2019					
	Less Than 12 Months		12 Months or Greater		Total	
	(Dollars in thousands)					
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government Agencies	$ 2,486	$ 20	$ -	$ -	$ 2,486	$ 20
Corporate Securities	-	-	6,360	158	6,360	158
Mortgage-Backed Securities	950	4	44,366	493	45,316	497
Municipal Securities	948	4	1,261	1	2,209	5
Other Securities	-	-	-	-	-	-
Total Securities Available for Sale	$ 4,384	$ 28	$ 51,987	$ 652	$ 56,371	$ 680

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.

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The amortized cost and fair values of securities available for sale as of September 30, 2020 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	$ 20,637	$ 20,751
One to Five Years	105,975	108,048
Over Five to Ten Years	254,610	261,188
Over Ten Years	153,844	157,548
Total Securities Available for Sale	$ 535,066	$ 547,535

Note 6 – Loans and the Allowance for Loan Losses –

Loans receivable at September 30, 2020 and December 31, 2019 are summarized as follows:

	September 30, 2020	December 31, 2019
	(Dollars in thousands)	
Real estate loans:		
Construction and land	$ 334,100	$ 244,181
Farmland	56,567	48,681
1-4 family residential	493,344	293,142
Multi-family residential	99,901	36,454
Nonfarm nonresidential	970,197	612,608
Commercial	1,015,173	390,398
Consumer	113,192	84,801
Total loans held for investment	3,082,474	1,710,265
Less:		
Allowance for loan losses	(20,340)	(12,124)
Net loans	$ 3,062,134	$ 1,698,141

Small Business Administration ("SBA") Paycheck Protection Program ("PPP") loans accounted for $392.9 million and $4.8 million of the commercial and consumer portfolios, respectively, as of September 30, 2020.

The performing 1-4 family residential, multi-family residential, commercial real estate, and commercial loans, excluding the SBA PPP loans which are pledged to the Federal Reserve Bank Paycheck Protection Program Liquidity Facility ("PPPLF"), are pledged, under a blanket lien, as collateral securing advances from the FHLB at September 30, 2020 and December 31, 2019.

Net deferred loan origination fees were $13.1 million and $3.0 million at September 30, 2020 and December 31, 2019, respectively, and are netted in their respective loan categories above. The majority of the fees, $9.4 million, at September 30, 2020 are associated with the SBA PPP loans. 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, 2020 and December 31, 2019, overdrafts of $816,000 and $276,000, respectively, have been reclassified to loans.

The Bank is the lead lender on participations sold, without recourse, to other financial institutions which amounts are not included in the consolidated balance sheets. The unpaid principal balances of mortgages and other loans serviced for others were approximately $157.8 million and $129.7 million at September 30, 2020 and December 31, 2019, respectively.

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

Loans acquired in business combinations are initially recorded at fair value, which includes an estimate of credit losses expected to be realized over the remaining lives of the loans and, therefore, no corresponding allowance for loan losses is recorded for these loans at acquisition. Methods utilized to estimate any subsequently required allowance for loan losses for acquired loans not deemed credit-impaired at acquisition are similar to originated loans; however, the estimate of loss is based on the unpaid principal balance and then compared to any remaining unaccreted purchase discount. To the extent the calculated loss is greater than the remaining unaccreted discount, an allowance is recorded for such difference. For purchased impaired credits, cash flow re-estimations are performed at least quarterly for each acquired impaired loan or loan pool. Increases in estimated cash flows above those expected at the time of acquisition are recognized on a prospective basis as interest income over the remaining life of the loan and/or pool. Decreases in expected cash flows subsequent to acquisition generally result in recognition of a provision for credit loss.

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Total loans held for investment at September 30, 2020 includes $868.5 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, 2020 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 $69.0 million and acquired performing loans not accounted for under ASC 310-30 totaling $811.0 million with a remaining purchase discount of $11.5 million.

Total loans held for investment at December 31, 2019 includes $180.0 million of loans acquired in acquisitions that were recorded at fair value as of the acquisition date. Included in the acquired balances at December 31, 2019 were acquired impaired loans accounted for under ASC 310-30 with a net carrying amount of $5.0 million and acquired performing loans not accounted for under ASC 310-30 totaling $177.1 million with a remaining purchase discount of $2.0 million.

The following tables set forth, as of September 30, 2020 and December 31, 2019, 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, 2020 (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	$ 1,868	$ 229	$ 1,888	$ 226	$ 3,882	$ 3,414	$ 617	$ 12,124
Charge-offs	(12)	(2)	(323)	-	-	(560)	(351)	(1,248)
Recoveries	10	-	5	-	12	77	59	163
Provision	861	293	1,580	626	3,350	1,804	787	9,301
Ending Balance	$ 2,727	$ 520	$ 3,150	$ 852	$ 7,244	$ 4,735	$ 1,112	$ 20,340
Ending Balance:								
Individually evaluated for impairment	$ -	$ 3	$ 62	$ -	$ 212	$ 372	$ 98	$ 747
Collectively evaluated for impairment	$ 2,727	$ 517	$ 3,088	$ 852	$ 7,032	$ 4,363	$ 1,014	$ 19,593
Purchased Credit Impaired (1)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans receivable:								
Ending Balance	$ 334,100	$ 56,567	$ 493,344	$ 99,901	$ 970,197	$ 1,015,173	$ 113,192	$ 3,082,474
Ending Balance:								
Individually evaluated for impairment	$ 408	$ 211	$ 3,915	$ -	$ 5,295	$ 5,165	$ 442	$ 15,436
Collectively evaluated for impairment	$ 332,705	$ 56,246	$ 457,387	$ 99,901	$ 938,322	$ 1,003,049	$ 110,444	$ 2,998,054
Purchased Credit Impaired (1)	$ 987	$ 110	$ 32,042	$ -	$ 26,580	$ 6,959	$ 2,306	$ 68,984

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	December 31, 2019 (Dollars in thousands)							
	Real Estate: Construction and Land	Real Estate: Farmland	Real Estate: 1-4 Family Residential	Real Estate: Multi-family Residential	Real Estate: Nonfarm Nonresidential	Commercial	Consumer	Total
Allowance for credit losses:								
Beginning balance	$ 1,590	$ 104	$ 1,538	$ 236	$ 2,715	$ 4,453	$ 584	$ 11,220
Charge-offs	(2)	(2)	(162)	-	(51)	(1,556)	(52)	(1,825)
Recoveries	-	-	14	-	4	41	64	123
Provision	280	127	498	(10)	1,214	476	21	2,606
Ending Balance	$ 1,868	$ 229	$ 1,888	$ 226	$ 3,882	$ 3,414	$ 617	$ 12,124
Ending Balance:								
Individually evaluated for impairment	$ -	$ 4	$ 30	$ -	$ 52	$ 421	$ 49	$ 556
Collectively evaluated for impairment	$ 1,868	$ 225	$ 1,858	$ 226	$ 3,830	$ 2,993	$ 568	$ 11,568
Purchased Credit Impaired (1)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans receivable:								
Ending Balance	$ 244,181	$ 48,681	$ 293,142	$ 36,454	$ 612,608	$ 390,398	$ 84,801	$ 1,710,265
Ending Balance:								
Individually evaluated for impairment	$ 397	$ 222	$ 2,531	$ -	$ 4,101	$ 4,175	$ 421	$ 11,847
Collectively evaluated for impairment	$ 243,784	$ 48,324	$ 290,549	$ 36,454	$ 603,891	$ 386,027	$ 84,380	$ 1,693,409
Purchased Credit Impaired (1)	$ -	$ 135	$ 62	$ -	$ 4,616	$ 196	$ -	$ 5,009

Portfolio Segment Risk Factors

Construction and land include loans to small-to-midsized businesses to construct owner-user properties, loans to developers of commercial real estate investment properties and residential developments and, to a lesser extent, loans to individual clients for construction of single-family homes in our market areas. Risks associated with these loans include fluctuations in the value of real estate, project completion risk and change in market trends. We are also exposed to risk based on the ability of the construction loan borrower to finance the loan or sell the property upon completion of the project, which may be affected by changes in secondary market terms and criteria for permanent financing since the time that we funded the loan.

Farmland loans are often for investments related to agricultural businesses and may include construction of facilities. These loans are usually repaid through permanent financing or the cashflow from the borrower's ongoing operations.

One to four family residential include first and second lien one-to-four family mortgage loans, as well as home equity lines of credit, in each case primarily on owner-occupied primary residences. We are exposed to risk based on fluctuations in the value of the real estate collateral securing the loan, as well as changes in the borrower's financial condition, which could be affected by numerous factors, including divorce, job loss, illness or other personal hardship.

Multifamily residential loans are generally originated to provide permanent financing for multifamily residential income producing properties. Repayment of these loans primarily relies on successful rental and management of the property.

Nonfarm nonresidential loans are extensions of credit secured by owner occupied and non-owner occupied collateral. Repayment is generally relied upon from the successful operations of the property. General economic conditions may impact the performance of these types of loans, including fluctuations in the value of real estate, vacancy rates, and unemployment trends.

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Commercial loans include general commercial and industrial, or C&I, loans, including commercial lines of credit, working capital loans, term loans, equipment financing, asset acquisition, expansion and development loans, borrowing base loans, letters of credit and other loan products, primarily in our target markets that are underwritten on the basis of the borrower's ability to service the debt from income. Commercial loan risk is derived from the expectation that such loans generally are serviced principally from the operations of the business, and those operations may not be successful. Any interruption or discontinuance of operating cash flows from the business, which may be influenced by events not under the control of the borrower such as economic events and changes in governmental regulations, could materially affect the ability of the borrower to repay the loan.

Consumer loans include a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans. The risk is based on changes in the borrower's financial condition, which could be affected by numerous factors, including divorce, job loss, illness or other personal hardship, and fluctuations in the value of the real estate or personal property securing the consumer loan, if any.

Within the commercial and consumer loans are 100% government guaranteed SBA PPP loans. These loans are separately reserved for within the Company's allowance for loan losses.

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

As of September 30, 2020 and December 31, 2019, the credit quality indicators, disaggregated by class of loan, are as follows:

Credit Quality Indicators

	September 30, 2020				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real Estate Loans:					
Construction and land	$ 331,358	$ 698	$ 1,636	$ 408	$ 334,100
Farmland	54,539	1,750	-	278	56,567
1-4 family residential	475,923	9,923	4,024	3,474	493,344
Multi-family residential	99,541	331	29	-	99,901
Nonfarm nonresidential	949,725	12,584	3,824	4,064	970,197
Commercial	996,956	11,864	4,286	2,067	1,015,173
Consumer	110,636	1,926	198	432	113,192
Total	$ 3,018,678	$ 39,076	$ 13,997	$ 10,723	$ 3,082,474

	December 31, 2019				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real Estate Loans:					
Construction and land	$ 241,519	$ 1,141	$ 1,124	$ 397	$ 244,181
Farmland	46,591	1,737	14	339	48,681
1-4 family residential	284,381	3,175	3,237	2,349	293,142
Multi-family residential	36,422	-	32	-	36,454
Nonfarm nonresidential	594,046	11,077	3,830	3,655	612,608
Commercial	374,500	9,219	4,854	1,825	390,398
Consumer	82,726	1,538	125	412	84,801
Total	$ 1,660,185	$ 27,887	$ 13,216	$ 8,977	$ 1,710,265

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

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

The following tables provide an analysis of the aging of loans and leases as of September 30, 2020 and December 31, 2019. Past due and non-accrual loan amounts exclude acquired impaired loans within pools, even if contractually past due or if the Company does not expect to receive payment in full, as the Company is currently accreting interest income over the expected life of the loans. All loans greater than 90 days past due are generally placed on nonaccrual status.

Aged Analysis of Past Due Loans Receivable

	September 30, 2020 (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	$ 1,018	$ 230	$ 973	$ 2,221	$ 331,879	$ 334,100	$ 593
Farmland	130	-	269	399	56,168	56,567	70
1-4 family residential	1,946	627	1,519	4,092	489,252	493,344	270
Multi-family residential	-	-	-	-	99,901	99,901	-
Nonfarm nonresidential	2,725	567	1,270	4,562	965,635	970,197	540
Commercial	261	365	1,553	2,179	1,012,994	1,015,173	452
Consumer	300	32	229	561	112,631	113,192	62
Total	$ 6,380	$ 1,821	$ 5,813	$ 14,014	$ 3,068,460	$ 3,082,474	$ 1,987

	December 31, 2019 (Dollars in thousands)						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment Over 90 Days Past Due and Still Accruing
Real Estate Loans:							
Construction and land	$ 483	$ 17	$ 379	$ 879	$ 243,302	$ 244,181	$ -
Farmland	18	16	143	177	48,504	48,681	-
1-4 family residential	1,245	975	1,000	3,220	289,922	293,142	29
Multi-family residential	32	-	-	32	36,422	36,454	-
Nonfarm nonresidential	181	610	1,529	2,320	610,288	612,608	-
Commercial	126	142	1,311	1,579	388,819	390,398	-
Consumer	143	34	405	582	84,219	84,801	43
Total	$ 2,228	$ 1,794	$ 4,767	$ 8,789	$ 1,701,476	$ 1,710,265	$ 72

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The following is a summary of information pertaining to impaired loans as of September 30, 2020 and December 31, 2019. Purchased performing 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 $234,000 and $69,000 for the nine months ending September 30, 2020 and the year ending December 31, 2019, respectively.

	September 30, 2020			
	(Dollars in thousands)			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Real Estate Loans:				
Construction and land	$ -	$ -	$ -	$ -
Farmland	19	21	3	19
1-4 family residential	380	411	62	378
Multi-family residential	-	-	-	-
Nonfarm nonresidential	635	635	212	678
Other Loans:				
Commercial	747	846	372	1,393
Consumer	112	124	98	170
Total	$ 1,893	$ 2,037	$ 747	$ 2,638
With no allowance recorded:				
Real Estate Loans:				
Construction and land	$ 408	$ 440	$ -	$ 507
Farmland	191	197	-	214
1-4 family residential	3,536	4,349	-	3,572
Multi-family residential	-	-	-	-
Nonfarm nonresidential	4,660	5,231	-	4,148
Other Loans:				
Commercial	4,418	4,557	-	7,614
Consumer	330	389	-	378
Total	$ 13,543	$ 15,163	$ -	$ 16,433
Total Impaired Loans:				
Real Estate Loans:				
Construction and land	$ 408	$ 440	$ -	$ 507
Farmland	210	218	3	233
1-4 family residential	3,916	4,760	62	3,950
Multi-family residential	-	-	-	-
Nonfarm nonresidential	5,295	5,866	212	4,826
Other Loans:				
Commercial	5,165	5,403	372	9,007
Consumer	442	513	98	548
Total	$ 15,436	$ 17,200	$ 747	$ 19,071

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	December 31, 2019 (Dollars in thousands)			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Real Estate Loans:				
Construction and land	$ -	$ -	$ -	$ 1
Farmland	20	21	4	21
1-4 family residential	136	167	30	163
Multi-family residential	-	-	-	-
Nonfarm nonresidential	721	738	52	601
Other Loans:				
Commercial	851	926	421	1,053
Consumer	120	123	49	116
Total	$ 1,848	$ 1,975	$ 556	$ 1,955
With no allowance recorded:				
Real Estate Loans:				
Construction and land	$ 397	$ 420	$ -	$ 184
Farmland	202	207	-	177
1-4 family residential	2,395	3,041	-	2,531
Multi-family residential	-	-	-	-
Nonfarm nonresidential	3,381	3,693	-	3,644
Other Loans:				
Commercial	3,323	4,173	-	4,157
Consumer	301	358	-	192
Total	$ 9,999	$ 11,892	$ -	$ 10,885
Total Impaired Loans:				
Real Estate Loans:				
Construction and land	$ 397	$ 420	$ -	$ 185
Farmland	222	228	4	198
1-4 family residential	2,531	3,208	30	2,694
Multi-family residential	-	-	-	-
Nonfarm nonresidential	4,102	4,431	52	4,245
Other Loans:				
Commercial	4,174	5,099	421	5,210
Consumer	421	481	49	308
Total	$ 11,847	$ 13,867	$ 556	$ 12,840

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As discussed in Note 3, the Company acquired loans with fair values of $893.3 million from Pedestal on May 1, 2020. Of the total $893.3 million of loans acquired, $818.7 million were determined to have no evidence of deteriorated credit quality and are accounted for under ASC Topics 310-10 and 310-20. The unamortized discount related to the acquired performing loans totaled $11.5 million at May 1, 2020. The remaining $74.6 million were determined to exhibit deteriorated credit quality since origination under ASC 310-30.

The following table presents the balances acquired on May 1, 2020 which were accounted for under ASC 310-30.

	Purchased Impaired Credits (Dollars in thousands)
Contractually required payments	$ 133,621
Non-accretable difference (expected losses)	(49,828)
Cash flows expected to be collected at acquisition	83,793
Accretable yield	(9,202)
Basis in acquired loans at acquisition	$ 74,591

The following is a summary of changes in the accretable difference for loans accounted for under ASC 310-30 during the nine months ended September 30, 2020:

Balance at December 31, 2019	$ 1,489
Accretable difference relating to purchased impaired credits acquired in Pedestal acquisition	9,202
Transfers from non-accretable difference to accretable yield	2,022
Accretion	(1,987)
Changes in expected cash flows not affecting non-accretable differences	882
Balance at September 30, 2020	$ 11,608

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, 2020 and December 31, 2019, the concessions granted to certain borrowers generally included extending the payment due dates and offering below market contractual interest rates.

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 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, 2020 and December 31, 2019. The Bank had no troubled debt restructurings that had subsequently defaulted during the nine months ended September 30, 2020 and the year ended December 31, 2019, respectively.

Modifications as of September 30, 2020:

	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	4	$ 268	$ 251
Nonfarm nonresidential	3	2,411	1,993
Other Loans:			
Commercial	7	5,150	4,198
Consumer	3	18	10
Total	17	$ 7,847	$ 6,452

Modifications as of December 31, 2019:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in thousands)	
Troubled Debt Restructuring			
Real Estate Loans:			
1-4 family residential	3	$ 235	$ 219
Nonfarm nonresidential	3	2,411	2,044
Other Loans:			
Commercial	6	5,914	2,755
Consumer	1	11	9
Total	13	$ 8,571	$ 5,027

As of September 30, 2020, payment deferrals of $908.5 million were generally granted due to the effects of the COVID-19 pandemic. The Company had 245 loans with outstanding principal balances of $184.3 million within the deferral periods, although $149.4 million were qualifying interest-only modifications executed for strategic pricing purposes to seasoned, highly rated clients. Based on the interpretive guidance released by the FASB and our regulators, the Company determined modifications associated with the COVID-19 pandemic were not troubled debt restructurings.

The Company also granted temporary payment deferrals of principal and interest for 60 days to certain clients due to the impact of Hurricane Laura during the quarter ended September 30, 2020. The deferrals associated with Hurricane Laura had outstanding balances of $85.8 million as of September 30, 2020. The Company determined these were not troubled debt restructurings.

Accrued interest receivable of $8.8 million was outstanding as of September 30, 2020 for all loan deferrals related to the COVID-19 pandemic and Hurricane Laura.

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Note 7 – Long Term Debt –

During the nine months ended September 30, 2020, the Company borrowed $107.1 million from the Federal Reserve Bank through the Paycheck Protection Program Liquidity Facility at an interest of 0.35% per annum. The debt matures within two years, or when individual loans serving as collateral are repaid. This debt is fully collateralized by pledged SBA PPP loans.

Note 8 – Leases –

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. Certain leases provide for increases in minimum monthly rental payments as defined by the lease agreement. Rental expense under these agreements was $2.0 million and $2.3 million for the nine months ended September 30, 2020 and 2019, respectively. At September 30, 2020, the Company had a weighted average lease term of 7.7 years and a weighted average discount rate of 2.97%.

Future minimum lease payments under these leases are as follows:

	(Dollars in thousands)
October 1, 2020 through September 30, 2021	$ 592
October 1, 2021 through September 30, 2022	2,159
October 1, 2022 through September 30, 2023	1,977
October 1, 2023 through September 30, 2024	1,869
October 1, 2024 and Thereafter	7,870
Total Future Minimum Lease Payments	14,467
Less Imputed Interest	(1,555)
Present Value of Lease Liabilities	$ 12,912

Note 9 – 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 $670.8 million and standby and commercial letters of credit of approximately $24.7 million at September 30, 2020.

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

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
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Note 10 – Fair Value of Financial Instruments –

Fair Value Disclosures

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

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

Recurring Basis

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

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

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The following tables present the balance of assets and liabilities measured on a recurring basis as of September 30, 2020 and December 31, 2019. 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, 2020				
Available for Sale:				
U.S. Government Agency Securities	$ 2,587	$ -	$ 2,587	$ -
Corporate Securities	30,108	-	20,455	9,653
Mortgage-Backed Securities	292,419	-	292,419	-
Municipal Securities	220,834	-	199,931	20,903
Other Securities	1,587	-	1,587	-
Mortgage Loans Held for Sale	671	-	671	-
Total	$ 548,206	$ -	$ 517,650	$ 30,556
December 31, 2019				
Available for Sale:				
U.S. Government Agency Securities	$ 15,937	$ -	$ 15,937	$ -
Corporate Securities	23,714	-	23,714	-
Mortgage-Backed Securities	139,459	-	139,459	-
Municipal Securities	99,083	-	92,496	6,587
Other Securities	-	-	-	-
Mortgage Loans Held for Sale	251	-	251	-
Total	$ 278,444	$ -	$ 271,857	$ 6,587

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 table below. The Company did not record any liabilities at fair value for which measurement of the fair value was made on a nonrecurring basis.

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

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, 2020				
Assets:				
Impaired Loans	$ 20,113	$ -	$ 20,113	$ -
Other Nonperforming Assets	11,408	-	11,408	-
Total	$ 31,521	$ -	$ 31,521	$ -
December 31, 2019				
Assets:				
Impaired Loans	$ 15,876	$ -	$ 15,876	$ -
Other Nonperforming Assets	4,196	-	4,196	-
Total	$ 20,072	$ -	$ 20,072	$ -

Fair Value Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. In accordance with generally accepted accounting principles, certain financial instruments and all non-financial instruments are excluded from these disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

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

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

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

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
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Loans – The exit price 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, 2020 and December 31, 2019 are as follows:

	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
			(Dollars in thousands)		
September 30, 2020					
Financial Assets:					
Cash and Short-Term Investments	$ 112,289	$ 112,289	$ 112,289	$ -	$ -
Securities	547,535	547,535	-	516,979	30,556
Mortgage Loans Held for Sale	671	671	-	671	-
Loans - Net	3,062,134	3,066,137	-	-	3,066,137
Cash Value of BOLI	44,779	44,779	-	44,779	-
Other Equity Securities	15,641	15,641	-	-	15,641
Total	$ 3,783,049	$ 3,787,052	$ 112,289	$ 562,429	$ 3,112,334
Financial Liabilities:					
Deposits	$ 3,236,261	$ 3,244,184	$ -	$ -	$ 3,244,184
Borrowings	290,663	318,878	-	318,878	-
Total	$ 3,526,924	$ 3,563,062	$ -	$ 318,878	$ 3,244,184

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

	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
			(Dollars in thousands)		
December 31, 2019					
Financial Assets:					
Cash and Short-Term Investments	$ 150,743	$ 150,743	$ 150,743	$ -	$ -
Securities	278,193	278,193	-	271,606	6,587
Mortgage Loans Held for Sale	251	251	-	251	-
Loans - Net	1,698,141	1,696,470	-	-	1,696,470
Cash Value of BOLI	32,568	32,568	-	32,568	-
Other Equity Securities	12,565	12,565	-	-	12,565
Total	$ 2,172,461	$ 2,170,790	$ 150,743	$ 304,425	$ 1,715,622
Financial Liabilities:					
Deposits	$ 1,782,010	$ 1,782,692	$ -	$ -	$ 1,782,692
Borrowings	185,989	202,863	-	202,863	-
Total	$ 1,967,999	$ 1,985,555	$ -	$ 202,863	$ 1,782,692

Note 11 – Recently Issued Accounting Pronouncements –

Accounting Standards Adopted in Current Period

None

Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The amendments introduce an impairment model that is based on current expected credit losses ("CECL"), rather than incurred losses, to estimate credit losses on certain types of financial instruments (ex. loans and held to maturity securities), including certain off-balance sheet financial instruments (ex. commitments to extend credit and standby letters of credit that are not unconditionally cancellable). The CECL should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments, over the contractual term. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. Financial instruments with similar risk characteristics may be grouped together when estimating the CECL. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination that are measured at amortized cost basis is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial estimate of expected credit loss would be recognized through an allowance for credit losses with an offset (i.e. increase) to the purchase price at acquisition. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for these assets. The ASU also amends the current available for sale security impairment model for debt securities whereby credit losses relating to available for sale debt securities should be recorded through an allowance for credit losses. 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. On October 18, 2019, FASB approved an effective date delay applicable to smaller reporting companies until January 2023. The Company has elected to delay implementation of the standard. The future adoption of this ASU may have a material effect on the Company's consolidated financial statements.

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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. The standard was adopted on April 1, 2020 and had no impact on the consolidated financial statements.

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

FORWARD-LOOKING STATEMENTS

When we refer in this Form 10-Q to "we," "our," "us," the "Company" and "Business First," we are referring to Business First Bancshares, Inc. and its consolidated subsidiaries, including b1BANK, 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:

- the effects of the ongoing COVID-19 pandemic, including, among other effects: the impact of the public health crisis; the extent and duration of closures of businesses, including our branches, vendors and customers; the operation of financial markets; employment levels; market liquidity; the impact of various actions taken in response by the United States ("U.S.") federal government, the Federal Reserve, other banking regulators, state and local governments; the adequacy of our allowance for loan losses in relation to potential losses in our loan portfolio; and the impact that all of these factors have on our borrowers, other customers, vendors and counterparties;

- 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 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, epidemics and pandemics such as coronavirus, 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, 2019, filed with the Securities and Exchange Commission.

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

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

The following discussion and analysis focuses on significant changes in the financial condition of Business First and its subsidiaries from December 31, 2019 to September 30, 2020, and its results of operations for the three and nine months ended September 30, 2020. 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, 2019, 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 financial holding company headquartered in Baton Rouge, Louisiana. Through our wholly-owned subsidiary, b1BANK, 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 42 banking centers in markets across Louisiana and in Dallas, Texas. As of September 30, 2020, we had total assets of $4.0 billion, total loans of $3.1 billion, total deposits of $3.2 billion, and total shareholders' equity of $398.1 million.

As a financial 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 our markets and across our region, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within our markets.

Other Developments

Pedestal Merger

On May 1, 2020 we consummated the merger of Pedestal Bancshares, Inc. ("Pedestal"), headquartered in Houma, Louisiana, with and into Business First, pursuant to the terms of that certain Agreement and Plan of Reorganization (the "Reorganization Agreement"), dated as of January 22, 2020, by and between Business First and Pedestal (the "Merger"). At April 30, 2020, Pedestal reported $1.4 billion in total assets, $935.8 million in loans and $1.2 billion in deposits. Also on May 1, 2020, Pedestal's wholly owned banking subsidiary, Pedestal Bank, was merged with and into b1BANK. Pursuant to the terms of the Reorganization Agreement, upon consummation of the Merger, we issued 7,614,506 shares of our common stock to the former shareholders of Pedestal. Upon consummation of the Merger and as contemplated by the Reorganization Agreement, we reconstituted the boards of directors, reducing the size of each to fourteen and appointing four former directors of Pedestal and Pedestal Bank to the boards of directors of Business First and b1BANK.

Recent Developments Related to COVID-19

The COVID-19 pandemic has caused extensive disruptions to the global, national and regional economy. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief.

We have taken a number of actions in response to the COVID-19 pandemic:

- In anticipation of credit losses expected as a result of the COVID-19 pandemic, we recorded an additional provision for loan losses in the second and third quarter of 2020;
- We instituted a COVID-19 Deferral Assistance Program, described in further detail below, under which we have agreed to allow borrowers to defer certain payments on loans;
- We participated in the Small Business Administration ("SBA") Paycheck Protection Program ("PPP"), as described in further detail below;
- We amended our bylaws to allow for shareholders to participate in our annual and special meetings by means of remote communication; and we held our annual meeting in the form of a virtual meeting;
- We have analyzed our portfolio to determine which sectors we believe may be particularly impacted by the pandemic—such as energy, hotels, restaurants, 1-4 family and retail—and have flagged those sectors for additional monitoring;
- In sensitivity to our customers, we have waived certain service fees, such as late fees, excessive withdrawal fees, etc. and increased daily limits on ATM withdrawals; and
- We have monitored our liquidity.

COVID-19 and Hurricane Laura Deferral Assistance Program

Beginning on March 25, 2020, we have taken proactive measures to help customers by deferring principal and/or interest payments. As of September 30, 2020, we had agreed to deferrals on approximately 2,400 loans with an aggregate outstanding balance of $908.5 million. We had 245 loans with outstanding principal balances of $184.3 million within the deferral periods, although $149.4 million were qualifying interest-only modifications executed for strategic pricing purposes to seasoned, highly rated clients.

In accordance with Financial Accounting Standards Board ("FASB") and interagency regulatory guidance issued in March 2020, loans that are modified under the terms of our COVID-19 Deferral Assistance Program will not be considered as troubled debt restructurings to the extent that they meet the terms of such guidance.

We also granted $85.8 million in 60-day deferrals of principal and interest to certain clients due to the impact of Hurricane Laura during the quarter ended September 30, 2020. We determined these were not troubled debt restructurings.

SBA PPP Participation

Additionally, Business First funded approximately 2,800 PPP loans with an aggregate balance of $397.7 million and an average loan balance of approximately $141,000. We also utilized the Paycheck Protection Program Liquidity Facility ("PPPLF"), drawing $107.1 million from the PPPLF to help fund PPP loans.

Financial Highlights

The financial highlights as of and for the three and nine months ended September 30, 2020 include:

- **Total assets** of $4.0 billion, a $1.7 billion, or 73.9%, increase from December 31, 2019.
- **Total loans held for investment** of $3.1 billion, a $1.4 billion, or 80.2%, increase from December 31, 2019.
- **Total deposits** of $3.2 billion, a $1.5 billion, or 81.6%, increase from December 31, 2019.

- **Net income** of $9.6 million, a $4.1 million, or 74.4%, increase from the three months ended September 30, 2019.
- **Net interest income** of $36.9 million, an increase of $16.7 million, or 82.3%, from the three months ended September 30, 2019.
- **Allowance for loan and lease losses** of 0.66% of total loans held for investment, compared to 0.71% as of December 31, 2019, and a ratio of nonperforming loans to total loans held for investment of 0.32%, compared to 0.53% as of December 31, 2019.
- **Earnings per share** for the first nine months of 2020 of $0.93 per basic share and $0.93 per diluted share, compared to $1.35 per basic share and $1.32 per diluted share for the first nine months of 2019.
- **Return on average assets** of 0.67% over the first nine months of 2020, compared to 1.14% for the first nine months of 2019.
- **Return on average equity** of 6.30% over the first nine months of 2020, compared to 8.88% for the first nine months of 2019.
- **Community Bank Leverage Ratio ("CBLR")** as of September 30, 2020 was 8.74%, as we opted in to adopt the CBLR framework, compared to Tier 1 Leverage, Common Equity Tier 1, Tier 1 Risk-based and Total Risk-based Capital 10.56%, 11.43%, 11.43%, and 13.30%, respectively as of December 31, 2019.
- **Book value per share** of $19.26, a decrease of 10.3% from $21.47 at December 31, 2019.

Results of Operations for the Three and Nine Months Ended September 30, 2020 and 2019

Performance Summary

For the three months ended September 30, 2020, net income was $9.6 million, or $0.47 per basic share and $0.46 per diluted share, compared to net income of $5.5 million, or $0.41 per basic share and $0.40 per diluted share, for the three months ended September 30, 2019. Return on average assets, on an annualized basis, decreased to 0.98% for the three months ended September 30, 2020, from 1.02% for the three months ended September 30, 2019. Return on average equity, on an annualized basis, increased to 9.85% for the three months ended September 30, 2020, as compared to 7.93% for the three months ended September 30, 2019.

For the nine months ended September 30, 2020, net income was $16.2 million, or $0.93 per basic share and $0.93 per diluted share, compared to net income of $18.0 million, or $1.35 per basic share and $1.32 per diluted share, for the nine months ended September 30, 2019. Return on average assets, on an annualized basis, decreased to 0.67% for the nine months ended September 30, 2020, from 1.14% for the nine months ended September 30, 2019. Return on average equity, on an annualized basis, decreased to 6.30% for the nine months ended September 30, 2020, as compared to 8.88% for the nine months ended September 30, 2019.

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 equity using a monthly average, and average yield / rate utilizing a 30/360 day count convention.

For the three months ended September 30, 2020, net interest income totaled $36.9 million, and net interest margin and net interest spread were 4.06% and 3.81%, respectively, compared to $20.3 million, 4.10%, and 3.66%, respectively, for the three months ended September 30, 2019. The average yield on the loan portfolio (excluding SBA PPP loans) was 5.65% for the three months ended September 30, 2020, compared to 5.87% for the three months ended September 30, 2019, and the average yield on total interest-earning assets was 4.67% for the three months ended September 30, 2020, compared to 5.32% for the three months ended September 30, 2019. For the three months ended September 30, 2020, overall cost of funds (which includes noninterest-bearing deposits) decreased 68 basis points compared to the three months ended September 30, 2019, primarily due to the federal funds rate cuts during the second half of 2019 and first quarter of 2020, along with lower yielding deposits and increased deposit and accretion recognized on borrowings from the Pedestal acquisition. While we experienced significant loan growth in average loan balances, we anticipate continued downward pressure on our net interest margin and net interest spread in future periods based on the current yield curve.

For the nine months ended September 30, 2020, net interest income totaled $88.1 million, and net interest margin and net interest spread were 3.97% and 3.66%, respectively, compared to $59.6 million, 4.10%, and 3.68%, respectively, for the nine months ended September 30, 2019. The average yield on the loan portfolio (excluding SBA PPP loans) was 5.61% for the nine months ended September 30, 2020, compared to 5.87% for the nine months ended September 30, 2019, and the average yield on total interest-earning assets was 4.75% for the nine months ended September 30, 2020, compared to 5.29% for the nine months ended September 30, 2019. For the nine months ended September 30, 2020, overall cost of funds (which includes noninterest-bearing deposits) decreased 45 basis points compared to the nine months ended September 30, 2019, primarily due to the federal funds rate cuts during the second half of 2019 and first quarter of 2020, along with lower yielding deposits and increased deposit and borrowing accretion from the Pedestal acquisition. While we experienced significant loan growth in average loan balances, we anticipate continued pressure on our net interest margin and net interest spread in future periods based on the current yield curve.

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 table also sets 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, 2020 and 2019, 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 either over the remaining lives of the respective loans or expected cash flows. Averages presented in the table below, and throughout this report, are month-end averages.

	For the Three Months Ended September 30,					
	2020			2019		
	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 (excluding SBA PPP)	$ 2,638,417	$ 37,250	5.65%	$ 1,664,283	$ 24,408	5.87%
SBA PPP loans	399,366	2,668	2.67	—	—	—
Securities available for sale	564,630	2,474	1.75	297,121	1,783	2.40
Interest-bearing deposits in other banks	33,970	69	0.81	16,070	129	3.21
Total interest-earning assets	3,636,383	42,461	4.67	1,977,474	26,320	5.32
Allowance for loan losses	(19,329)			(11,783)		
Noninterest-earning assets	316,577			191,068		
Total assets	$ 3,933,631	$ 42,461		$ 2,156,759	$ 26,320	
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 2,262,774	$ 4,345	0.77%	$ 1,300,740	$ 5,050	1.55%
Subordinated debt	25,000	422	6.75	25,000	422	6.75
Subordinated debt – trust preferred securities	5,000	45	3.60	—	—	—
Advances from Federal Home Loan Bank ("FHLB")	122,592	515	1.68	105,588	560	2.12
Paycheck protection program liquidity facility ("PPPLF")	107,076	95	0.35	—	—	—
Other borrowings	35,437	107	1.21	23,718	30	0.51
Total interest-bearing liabilities	2,557,879	5,529	0.86	1,455,046	6,062	1.67
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	957,090			398,748		
Other liabilities	28,453			24,937		
Total noninterest-bearing liabilities	985,543			423,685		
Shareholders' equity	390,209			278,028		
Total liabilities and shareholders' equity	$ 3,933,631			$ 2,156,759		
Net interest rate spread(1)			3.81%			3.66%
Net interest income		$ 36,932			$ 20,258	
Net interest margin(2)			4.06%			4.10%
Overall cost of funds			0.63%			1.31%

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

	For the Nine Months Ended September 30,					
	2020			2019		
	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 (excluding SBA PPP)	$ 2,227,681	$ 93,699	5.61%	$ 1,605,423	$ 70,701	5.87%
SBA PPP loans	240,164	4,998	2.77	—	—	—
Securities available for sale	444,237	6,380	1.91	303,374	5,486	2.41
Interest-bearing deposits in other banks	43,965	291	0.88	26,621	616	3.09
Total interest-earning assets	2,956,047	105,368	4.75	1,935,418	76,803	5.29
Allowance for loan losses	(15,046)			(11,625)		
Noninterest-earning assets	283,939			187,924		
Total assets	$ 3,224,940	$ 105,368		$ 2,111,717	$ 76,803	
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 1,866,556	$ 13,826	0.99%	$ 1,323,927	$ 14,845	1.50%
Subordinated debt	25,000	1,266	6.75	25,000	1,267	6.75
Subordinated debt – trust preferred securities	2,778	79	3.79	—	—	—
Advances from Federal Home Loan Bank ("FHLB")	116,785	1,538	1.76	59,990	1,065	2.37
Paycheck protection program liquidity facility ("PPPLF")	61,326	167	0.36	—	—	—
Other borrowings	45,179	430	1.27	16,863	55	0.43
Total interest-bearing liabilities	2,117,624	17,306	1.09	1,425,780	17,232	1.61
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	738,578			396,452		
Other liabilities	26,834			19,105		
Total noninterest-bearing liabilities	765,412			415,557		
Shareholders' equity	341,904			270,380		
Total liabilities and shareholders' equity	$ 3,224,940			$ 2,111,717		
Net interest rate spread(1)			3.66%			3.68%
Net interest income		$ 88,062			$ 59,571	
Net interest margin(2)			3.97%			4.10%
Overall cost of funds			0.81%			1.26%

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

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

	For the Three Months Ended September 30, 2020 compared to the Three Months Ended September 30, 2019		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands) (Unaudited)		
Interest-earning assets:			
Total loans (excluding SBA PPP)	$ 13,753	$ (911)	$ 12,842
SBA PPP loans	2,668	—	2,668
Securities available for sale	1,172	(481)	691
Interest-earning deposits in other banks	36	(96)	(60)
Total increase (decrease) in interest income	$ 17,629	$ (1,488)	$ 16,141
Interest-bearing liabilities:			
Interest-bearing deposits	$ 1,847	$ (2,552)	$ (705)
Subordinated debt	—	—	—
Subordinated debt – trust preferred securities	45	—	45
Advances from FHLB	71	(116)	(45)
PPPLF	95	—	95
Other borrowings	35	42	77
Total increase (decrease) in interest expense	2,093	(2,626)	(533)
Increase (decrease) in net interest income	$ 15,536	$ 1,138	$ 16,674

	For the Nine Months Ended September 30, 2020 compared to the Nine Months Ended September 30, 2019		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands) (Unaudited)		
Interest-earning assets:			
Total loans (excluding SBA PPP)	$ 26,173	$ (3,175)	$ 22,998
SBA PPP loans	4,998	—	4,998
Securities available for sale	2,023	(1,129)	894
Interest-earning deposits in other banks	115	(440)	(325)
Total increase (decrease) in interest income	$ 33,309	$ (4,744)	$ 28,565
Interest-bearing liabilities:			
Interest-bearing deposits	$ 4,019	$ (5,039)	$ (1,020)
Subordinated debt	—	—	—
Subordinated debt – trust preferred securities	79	—	79
Advances from FHLB	748	(275)	473
PPPLF	167	—	167
Other borrowings	270	105	375
Total increase (decrease) in interest expense	5,283	(5,209)	74
Increase (decrease) in net interest income	$ 28,026	$ 465	$ 28,491

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 $2.5 million for the three months ended September 30, 2020 and $479,000 for the same period in 2019. For the nine months ended September 30, 2020 and 2019, the provision for loan losses was $9.3 million and $2.4 million, respectively. The higher provision for both the three months and nine months ended September 30, 2020 compared to the same period in 2019 relates primarily to loan growth and the impact of the COVID-19 pandemic, which was recorded through qualitative adjustments based on economic factors.

Noninterest Income

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

	For the Three Months Ended September 30,		Increase (Decrease)
	2020	2019	
	(Dollars in thousands) (Unaudited)		
Noninterest income:			
Service charges on deposit accounts	$ 1,592	$ 1,035	$ 557
Debit card and ATM fee income	1,399	460	939
Bank-owned life insurance income	237	175	62
Gain on sales of loans	—	24	(24)
Gain on sales of investment securities	95	26	69
Brokerage commission	281	15	266
Mortgage origination income	123	120	3
Correspondent bank income	45	118	(73)
Rental income	14	159	(145)
Gain (loss) on sales of other real estate owned	(104)	78	(182)
Loss on sale of banking center	—	(12)	12
Loss on sale / disposal of other assets	(627)	(650)	23
Pass-through income from SBIC partnerships	364	138	226
Other	798	236	562
Total noninterest income	$ 4,217	$ 1,922	$ 2,295

	For the Nine Months Ended September 30,		Increase
	2020	2019	(Decrease)
	(Dollars in thousands) (Unaudited)		
Noninterest income:			
Service charges on deposit accounts	$ 3,686	$ 3,007	$ 679
Debit card and ATM fee income	2,765	1,397	1,368
Bank-owned life insurance income	689	517	172
Gain on sales of loans	184	115	69
Gain on sales of investment securities	120	84	36
Brokerage commission	537	58	479
Mortgage origination income	364	308	56
Correspondent bank income	186	343	(157)
Rental income	60	488	(428)
Gain on sales of other real estate owned	28	27	1
Gain on sale of banking center	—	581	(581)
Loss on sale / disposal of other assets	(627)	(650)	23
Pass-through income from SBIC partnerships	2,368	1,404	964
Other	1,657	773	884
Total noninterest income	$ 12,017	$ 8,452	$ 3,565

Total noninterest income increased $2.3 million, or 119.4%, from the three months ended September 30, 2019. The increase was primarily due to the increases in services charges of $557,000, or 53.8%, and debit card and ATM fee income of $939,000, or 204.1%, due to increased activity from the Pedestal acquisition, brokerage commission of $266,000, or 1,773.3%, due to the acquisition of Pedestal's brokerage customers, pass-through income from SBIC partnerships of $226,000, or 163.8%, due to higher earnings from the equity investments, and other income of $562,000, or 238.1%, due primarily to the insurance settlement of $390,000, offset by a reduction of rental income of $145,000, or 91.2%, due to the expiration of a subleased building, and a loss on the sales of other real estate owned of $104,000, compared to a gain of $78,000 for the three months ended September 30, 2019.

Total noninterest income increased $3.6 million, or 42.2%, from the nine months ended September 30, 2019. The increase was primarily due to the increases in service charges of $679,000, or 22.6%, and debit card and ATM fee income of $1.4 million, or 97.9%, due to increased activity from the Pedestal acquisition, brokerage commission of $479,000, or 825.9%, due to the acquisition of Pedestal's brokerage customers, pass-through income from SBIC partnerships of $964,000, or 68.7%, due to higher earnings from the equity investments, and other noninterest income of $884,000, or 114.4%, offset by a reduction of rental income of $428,000, or 87.7%, due to the expiration of a sublease, and by the gain on sale of the banking center of $581,000 which occurred during the quarter ended June 30, 2019.

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, among others.

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

	For the Three Months Ended September 30,		Increase
	2020	2019	(Decrease)
	(Dollars in thousands) (Unaudited)		
Salaries and employee benefits	$ 15,430	$ 8,793	$ 6,637
Non-staff expenses:			
Occupancy of bank premises	1,394	1,230	164
Depreciation and amortization	1,322	645	677
Data processing	1,832	380	1,452
FDIC assessment fees	594	(105)	699
Legal and other professional fees	555	346	209
Advertising and promotions	320	544	(224)
Utilities and communications	789	397	392
Ad valorem shares tax	673	345	328
Directors' fees	117	121	(4)
Other real estate owned expenses and write-downs	171	19	152
Merger and conversion related expenses	556	350	206
Other	3,198	1,813	1,385
Total noninterest expense	$ 26,951	$ 14,878	$ 12,073

	For the Nine Months Ended September 30,		Increase
	2020	2019	(Decrease)
	(Dollars in thousands) (Unaudited)		
Salaries and employee benefits	$ 42,486	$ 26,101	$ 16,385
Non-staff expenses:			
Occupancy of bank premises	3,824	3,412	412
Depreciation and amortization	2,996	1,906	1,090
Data processing	3,539	1,572	1,967
FDIC assessment fees	1,013	293	720
Legal and other professional fees	1,492	1,017	475
Advertising and promotions	960	1,150	(190)
Utilities and communications	1,751	1,018	733
Ad valorem shares tax	1,498	1,035	463
Directors' fees	291	451	(160)
Other real estate owned expenses and write-downs	475	118	357
Merger and conversion related expenses	3,430	331	3,099
Other	7,636	4,841	2,795
Total noninterest expense	$ 71,391	$ 43,245	$ 28,146

Total noninterest expense increased $12.1 million, or 81.1%, for the three months ended September 30, 2020 and $28.1 million, or 65.1%, for the nine months ended September 30, 2020, due primarily to the acquisition of Pedestal on May 1, 2020 and the associated increases in branches, employees and merger and conversion related expenses.

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, 2020, income tax expense totaled $2.1 million, an increase of $786,000, or 60.0%, compared to $1.3 million for the same period in 2019. For the nine months ended September 30, 2020, income tax expense totaled $3.2 million, a decrease of $1.1 million, or 25.8%, compared to $4.4 million for the same period in 2019. Our effective tax rates for the three months ended September 30, 2020 and 2019 were 17.9% and 19.2%, respectively. For the nine months ended September 30, 2020 and 2019, our effective tax rates were 16.7% and 19.5%, respectively. The decrease in our effective tax rate for the three months ended September 30, 2020 is primarily due to lower taxable income. The decrease in our effective tax rate for the nine months ended September 30, 2020 is primarily due to lower taxable income and stock option exercises. Our effective tax rate for both periods was affected by tax-exempt income generated by municipal securities, bank-owned life insurance and by other nondeductible expenses (including acquisition-related expenses).

Financial Condition

Our total assets increased $1.7 billion, or 73.9%, from December 31, 2019 to September 30, 2020, due primarily from the Pedestal acquisition, participation in SBA PPP 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, 2020, total loans held for investment were $3.1 billion, an increase of $1.4 billion, or 80.2%, compared to $1.7 billion as of December 31, 2019. The increase was primarily due to the acquisition of Pedestal and SBA PPP participation. Additionally, $671,000 and $251,000 in mortgage loans were classified as loans held for sale as of September 30, 2020 and December 31, 2019, respectively.

Total loans held for investment as a percentage of total deposits were 95.3% and 96.0% as of September 30, 2020 and December 31, 2019, respectively. Total loans held for investment as a percentage of total assets were 77.9% and 75.2% as of September 30, 2020 and December 31, 2019, respectively.

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

	As of September 30, 2020 (Unaudited)		As of December 31, 2019	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Commercial	$ 1,015,173	32.9%	$ 390,398	22.8%
Real estate:				
Construction and land	334,100	10.9	244,181	14.3
Farmland	56,567	1.8	48,681	2.9
1-4 family residential	493,344	16.0	293,142	17.1
Multi-family residential	99,901	3.2	36,454	2.1
Nonfarm nonresidential	970,197	31.5	612,608	35.8
Consumer	113,192	3.7	84,801	5.0
Total loans held for investment	$ 3,082,474	100.0%	$ 1,710,265	100.0%

SBA PPP loans accounted for $392.9 million and $4.8 million of the commercial and consumer portfolios, respectively, as of September 30, 2020.

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 $624.8 million, or 160.0%, to $1.0 billion as of September 30, 2020 from $390.4 million as of December 31, 2019, primarily due to the acquisition of Pedestal and the participation in the SBA PPP.

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 $89.9 million, or 36.8%, to $334.1 million as of September 30, 2020 from $244.2 million as of December 31, 2019, primarily due to the acquisition of Pedestal.

1-4 family residential. Our 1-4 family residential loan portfolio is comprised of loans secured 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 and are generally offered as accommodations to existing customers.

1-4 family residential loans increased $200.2 million, or 68.3%, to $493.3 million as of September 30, 2020 from $293.1 million as of December 31, 2019, primarily due to the acquisition of Pedestal.

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 $357.6 million, or 58.4%, to $970.2 million as of September 30, 2020 from $612.6 million as of December 31, 2019, primarily due to the acquisition of Pedestal.

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, 2020			
	One Year or Less	One Through Five Years	After Five Years	Total
	(Dollars in thousands) (Unaudited)			
Commercial	$ 237,109	$ 690,500	$ 87,564	$ 1,015,173
Real estate:				
Construction and land	168,671	125,707	39,722	334,100
Farmland	9,994	32,725	13,848	56,567
1-4 family residential	84,494	256,036	152,814	493,344
Multi-family residential	24,228	26,648	49,025	99,901
Nonfarm nonresidential	100,392	540,714	329,091	970,197
Consumer	44,421	61,495	7,276	113,192
Total loans held for investment	$ 669,309	$ 1,733,825	$ 679,340	$ 3,082,474
Amounts with fixed rates	$ 331,316	$ 1,416,483	$ 346,229	$ 2,094,028
Amounts with floating rates	337,993	317,342	333,111	988,446

	As of December 31, 2019			
	One Year or Less	One Through Five Years	After Five Years	Total
	(Dollars in thousands)			
Commercial	$ 141,403	$ 194,612	$ 54,383	$ 390,398
Real estate:				
Construction and land	116,928	118,922	8,331	244,181
Farmland	8,428	31,982	8,271	48,681
1-4 family residential	37,418	171,235	84,489	293,142
Multi-family residential	5,994	16,130	14,330	36,454
Nonfarm nonresidential	70,862	370,951	170,795	612,608
Consumer	22,363	60,648	1,790	84,801
Total loans held for investment	$ 403,396	$ 964,480	$ 342,389	$ 1,710,265
Amounts with fixed rates	$ 165,154	$ 746,457	$ 266,488	$ 1,178,099
Amounts with floating rates	238,242	218,023	75,901	532,166

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 generally reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due, or interest may be recognized on a cash basis as long as the remaining book balance of the loan is deemed collectible. 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 $21.4 million and $13.2 million in nonperforming assets as of September 30, 2020 and December 31, 2019, respectively. We had $10.0 million in nonperforming loans as of September 30, 2020 compared to $9.0 million as of December 31, 2019. The increase in nonperforming assets from December 31, 2019 to September 30, 2020 is primarily due to the acquisition of Pedestal.

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

	As of September 30, 2020 (Unaudited)	As of December 31, 2019
	(Dollars in thousands)	
Nonaccrual loans	$ 7,988	$ 8,977
Accruing loans 90 or more days past due	1,986	72
Total nonperforming loans	9,974	9,049
Other nonperforming assets	414	160
Other real estate owned:		
Commercial real estate, construction, land and land development	9,746	3,808
Residential real estate	1,248	228
Total other real estate owned	10,994	4,036
Total nonperforming assets	$ 21,382	$ 13,245
Restructured loans-nonaccrual	$ 2,043	$ 2,106
Restructured loans-accruing	4,409	2,921
Ratio of nonperforming loans to total loans held for investment	0.32%	0.53%
Ratio of nonperforming assets to total assets	0.54	0.58

	As of September 30, 2020 (Unaudited)	As of December 31, 2019
	(Dollars in thousands)	
Nonaccrual loans by category:		
Real estate:		
Construction and land	$ 408	$ 397
Farmland	278	339
1-4 family residential	2,508	2,349
Multi-family residential	—	—
Nonfarm nonresidential	3,009	3,655
Commercial	1,504	1,825
Consumer	281	412
Total	$ 7,988	$ 8,977

As of September 30, 2020, we modified approximately 2,400 loans with outstanding balances totaling $908.5 million by granting temporary payment deferrals of principal and/or interest. The payment deferrals were granted due to the effects of the COVID-19 pandemic. Based on the interpretive guidance released by the FASB and our regulators, we determined these modifications were not troubled debt restructurings. Loans under these deferrals remain in their current risk rating and / or past due status through the deferral period.

Additionally, we also granted $85.8 million in 60-day deferrals of principal and interest to certain clients due to the impact of Hurricane Laura during the quarter ended September 30, 2020.

Potential Problem Loans

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

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness; however, such concerns are not so pronounced that we generally expect to experience significant loss within the short-term. Such 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, 2020				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands) (Unaudited)				
Real estate:					
Construction and land	$ 331,358	$ 698	$ 1,636	$ 408	$ 334,100
Farmland	54,539	1,750	—	278	56,567
1-4 family residential	475,923	9,923	4,024	3,474	493,344
Multi-family residential	99,541	331	29	—	99,901
Nonfarm nonresidential	949,725	12,584	3,824	4,064	970,197
Commercial	996,956	11,864	4,286	2,067	1,015,173
Consumer	110,636	1,926	198	432	113,192
Total	$ 3,018,678	$ 39,076	$ 13,997	$ 10,723	$ 3,082,474

	As of December 31, 2019				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real estate:					
Construction and land	$ 241,519	$ 1,141	$ 1,124	$ 397	$ 244,181
Farmland	46,591	1,737	14	339	48,681
1-4 family residential	284,381	3,175	3,237	2,349	293,142
Multi-family residential	36,422	—	32	—	36,454
Nonfarm nonresidential	594,046	11,077	3,830	3,655	612,608
Commercial	374,500	9,219	4,854	1,825	390,398
Consumer	82,726	1,538	125	412	84,801
Total	$ 1,660,185	$ 27,887	$ 13,216	$ 8,977	$ 1,710,265

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, 2020, the allowance for loan losses totaled $20.3 million, or 0.66%, of total loans held for investment. As of December 31, 2019, the allowance for loan losses totaled $12.1 million, or 0.71%, 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, 2020 (Unaudited)	As of and For the Year Ended December 31, 2019
	(Dollars in thousands)	
Average loans outstanding(1)	$ 2,467,845	$ 1,628,803
Gross loans held for investment outstanding at end of period	$ 3,082,474	$ 1,710,265
Allowance for loan losses at beginning of period	$ 12,124	$ 11,220
Provision for loan losses	9,301	2,606
Charge-offs:		
Real estate:		
Construction, land and farmland	14	4
Residential	323	162
Nonfarm non-residential	—	51
Commercial	560	1,556
Consumer	351	52
Total charge-offs	1,248	1,825
Recoveries:		
Real estate:		
Construction, land and farmland	10	—
Residential	5	14
Nonfarm non-residential	12	4
Commercial	77	41
Consumer	59	64
Total recoveries	163	123
Net charge-offs	1,085	1,702
Allowance for loan losses at end of period	$ 20,340	$ 12,124
Ratio of allowance to end of period loans held for investment	0.66%	0.71%
Ratio of net charge-offs to average loans	0.04	0.10

(1) Excluding loans held for sale.

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

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

	As of September 30, 2020 (Unaudited)		As of December 31, 2019	
	Amount	Percent to Total	Amount	Percent to Total
	(Dollars in thousands)			
Real estate:				
Construction and land	$ 2,727	13.4%	$ 1,868	15.4%
Farmland	520	2.5	229	1.9
1-4 family residential	3,150	15.5	1,888	15.6
Multi-family residential	852	4.2	226	1.9
Nonfarm nonresidential	7,244	35.6	3,882	32.0
Total real estate	14,493	71.2	8,093	66.8
Commercial	4,735	23.3	3,414	28.1
Consumer	1,112	5.5	617	5.1
Total allowance for loan losses	$ 20,340	100.0%	$ 12,124	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, 2020, the carrying amount of investment securities totaled $547.5 million, an increase of $269.3 million, or 96.8%, compared to $278.2 million as of December 31, 2019. The increase was primarily due to the acquisition of Pedestal on May 1, 2020. Securities represented 13.8% and 12.2% of total assets as of September 30, 2020 and December 31, 2019, 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, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands) (Unaudited)			
U.S. government agencies	$ 2,582	$ 5	$ —	$ 2,587
Corporate bonds	30,020	199	111	30,108
Mortgage-backed securities	285,348	7,231	160	292,419
Municipal securities	215,672	5,217	55	220,834
Other securities	1,444	143	—	1,587
Total	$ 535,066	$ 12,795	$ 326	$ 547,535

	As of December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. government agencies	$ 15,654	$ 303	$ 20	$ 15,937
Corporate bonds	23,774	98	158	23,714
Mortgage-backed securities	137,817	2,139	497	139,459
Municipal securities	97,641	1,447	5	99,083
Other securities	—	—	—	—
Total	$ 274,886	$ 3,987	$ 680	$ 278,193

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, 2020, 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, 2020									
	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	$ —	—%	$ 2,587	0.23%	$ —	—%	$ —	—%	$ 2,587	0.23%
Corporate bonds	—	—%	1,988	1.13%	27,153	4.78%	967	7.37%	30,108	4.62%
Mortgage-backed securities	161	3.08%	48,352	1.19%	153,326	1.63%	90,580	1.56%	292,419	1.54%
Municipal securities	20,590	2.32%	55,121	2.04%	80,709	1.99%	64,414	2.02%	220,834	2.04%
Other securities	—	—%	—	—%	—	—%	1,587	0.63%	1,587	0.63%
Total	$ 20,751	2.33%	$ 108,048	1.60%	$ 261,188	2.07%	$ 157,548	1.77%	$ 547,535	1.90%

	As of December 31, 2019									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
U.S. government agencies	$ 2,995	2.86%	$ 1,733	2.71%	$ 10,608	2.90%	$ 601	3.51%	$ 15,937	2.89%
Corporate bonds	6,481	3.43%	2,000	2.82%	15,233	5.40%	—	—%	23,714	4.64%
Mortgage-backed securities	2,340	1.89%	10,906	2.09%	68,686	2.29%	57,527	2.56%	139,459	2.38%
Municipal securities	15,201	2.00%	36,460	2.18%	36,631	2.30%	10,791	2.91%	99,083	2.28%
Other securities	—	—%	—	—%	—	—%	—	—%	—	—%
Total	$ 27,017	2.43%	$ 51,099	2.20%	$ 131,158	2.70%	$ 68,919	2.62%	$ 278,193	2.56%

The contractual maturity of mortgage-backed securities, collateralized mortgage obligations and asset backed securities is not a reliable indicator of their expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities and asset-backed securities are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to pre-pay. Monthly pay downs on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal and, consequently, the average life of this security will be lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of this security. The weighted average life of our investment portfolio was 5.35 years with an estimated effective duration of 45.79 months as of September 30, 2020.

As of September 30, 2020 and December 31, 2019, 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.

As of September 30, 2020 and December 31, 2019, the Company held other equity securities of $15.6 million and $12.6 million, respectively, comprised mainly of FHLB stock and small business investment companies (SBICs).

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, 2020 were $3.2 billion, an increase of $1.5 billion, or 81.6%, compared to $1.8 billion as of December 31, 2019, primarily due to the acquisition of Pedestal on May 1, 2020.

Noninterest-bearing deposits as of September 30, 2020 were $945.5 million, compared to $398.8 million as of December 31, 2019, an increase of $546.6 million, or 137.1%.

Average deposits for the nine months ended September 30, 2020 were $2.6 billion, an increase of $886.1 million, or 51.5%, over the full year average for the year ended December 31, 2019 of $1.7 billion. The average rate paid on total interest-bearing deposits decreased over this period from 1.50% for the year ended December 31, 2019 to 0.99% for the nine months ended September 30, 2020. The decrease in average rates during the nine months ended September 30, 2020 over the average for the year ended December 31, 2019 was primarily due to the federal funds rate cuts that occurred in the three months ended March 31, 2020, along with the accretion of deposit premium from the Pedestal acquisition. In addition, the stability and continued growth of noninterest-bearing demand accounts served to reduce the cost of deposits to 0.71% for the nine months ended September 30, 2020 compared to 1.15% for the year ended December 31, 2019.

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, 2020 (Unaudited)		For the Year Ended December 31, 2019	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)			
Interest-bearing demand accounts	$ 104,663	0.77%	$ 35,444	1.37%
Negotiable order of withdrawal (“NOW”) accounts	363,138	0.36%	255,648	0.85%
Limited access money market accounts and savings	623,701	0.47%	432,186	0.99%
Certificates and other time deposits > $250k	210,107	2.02%	176,987	2.15%
Certificates and other time deposits ≤ $250k	564,947	1.62%	416,631	2.16%
Total interest-bearing deposits	1,866,556	0.99%	1,316,896	1.50%
Noninterest-bearing demand accounts	738,578	—	402,147	—%
Total deposits	$ 2,605,134	0.71%	$ 1,719,043	1.15%

The ratio of average noninterest-bearing deposits to average total deposits for the nine months ended September 30, 2020 and the year ended December 31, 2019 was 28.4% and 23.4%, respectively.

The following table sets forth the contractual maturities of certain certificates of deposit at September 30, 2020:

	Certificates of Deposit More Than $250,000	Certificates of Deposit of $100,000 Through $250,000
	(Dollars in thousands)	
3 months or less	$ 52,269	$ 104,983
More than 3 months but less than 6 months	47,066	76,191
More than 6 months but less than 12 months	80,195	131,711
12 months or more	62,532	120,099
Total	$ 242,062	$ 432,984

Correspondent Bank Federal Funds Purchased Relationships

We maintain Federal Funds Purchased Relationships with the following financial institutions and limits as of September 30, 2020:

	Fed Funds Purchase Limits (Dollars in Thousands)
FNBB	$ 35,000
Compass Bank	30,000
The Independent Bankers Bank	25,000
First Horizon Bank	17,000
ServisFirst Bank	10,000
South State Bank	9,000
Total	$ 126,000

We had no outstanding balances as of September 30, 2020 and December 31, 2019, respectively.

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, 2020 and the year ended December 31, 2019, liquidity needs were primarily met by core deposits, security and loan maturities, and amortizing investment and loan portfolios. Although access to brokered deposits, purchased funds from correspondent banks and overnight advances from the FHLB have been utilized on occasion to take advantage of investment opportunities, we do not generally rely on these external funding sources. As of September 30, 2020 and December 31, 2019, we maintained six lines of credit with commercial banks which provided for extensions of credit with an availability to borrow up to an aggregate of $126.0 million. There were no funds under these lines of credit outstanding as of September 30, 2020 or December 31, 2019.

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 $3.2 billion and $2.1 billion for the nine months ended September 30, 2020 and the year ended December 31, 2019, respectively.

	For the Nine Months Ended September 30, 2020 (Unaudited)	For the Year Ended December 31, 2019
Sources of Funds:		
Deposits:		
Noninterest-bearing	22.9%	18.8%
Interest-bearing	57.9	61.7
Subordinated debt	0.9	1.2
Advances from FHLB	3.6	3.2
Paycheck protection program liquidity facility	1.9	—
Other borrowings	1.4	1.4
Other liabilities	0.8	0.9
Shareholders' equity	10.6	12.8
Total	100.0%	100.0%
Uses of Funds:		
Loans, net of allowance for loan losses	76.1%	75.7%
Securities available for sale	13.8	14.0
Interest-bearing deposits in other banks	1.3	1.3
Other noninterest-earning assets	8.8	9.0
Total	100.0%	100.0%
Average noninterest-bearing deposits to average deposits	28.4%	23.4%
Average loans to average deposits	94.7	94.8

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 53.7% for the nine months ended September 30, 2020 compared to the same period in 2019, primarily due to the acquisition of Pedestal and our participation in the SBA PPP. We predominantly invest excess deposits in overnight deposits with the Federal Reserve, securities, interest-bearing deposits at other banks or other short-term liquid investments until needed to fund loan growth. Our securities portfolio had a weighted average life of 5.35 years and an effective duration of 45.79 months as of September 30, 2020. As of December 31, 2019, our securities portfolio had a weighted average life of 4.23 years and an effective duration of 40.64 months.

As of September 30, 2020, we had outstanding $670.8 million in commitments to extend credit and $24.7 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2019, we had outstanding $389.9 million in commitments to extend credit and $24.4 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. See "*Off Balance Sheet Items"* below for additional information. The increase is largely attributable to the Pedestal acquisition.

As of September 30, 2020 and December 31, 2019, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature. As of September 30, 2020, we had cash and cash equivalents of $103.9 million compared to $89.4 million as of December 31, 2019.

Capital Resources

Total shareholders' equity increased to $398.1 million as of September 30, 2020, compared to $285.1 million as of December 31, 2019, an increase of $113.0 million, or 39.6%. This increase was primarily due to $98.7 million from the acquisition of Pedestal and net income of $16.2 million.

On October 22, 2020, our Board of Directors (the "Board") declared a quarterly dividend based upon our financial performance for the three months ended September 30, 2020 in the amount of $0.10 per share to the common shareholders of record as of November 15, 2020. The dividend is to be paid on November 30, 2020, or as soon as practicable thereafter.

The declaration and payment of dividends to our shareholders, as well as the amounts thereof, are subject to the discretion of the Board and depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board. As a holding company, our ability to pay dividends is largely dependent upon the receipt of dividends from our subsidiary, b1BANK. There can be no assurance that we will declare and pay any dividends to our shareholders.

Capital management consists of providing equity to support current and future operations. Banking regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. We are subject to regulatory capital requirements at the holding company and bank levels. As of September 30, 2020 and December 31, 2019, we and b1BANK were in compliance with all applicable regulatory capital requirements, and b1BANK 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. For the three and nine months ended September 30, 2020, we elected to opt in to the CBLR framework. Pursuant to section 201(b) of EGRRCPA, the federal bank regulatory agencies adopted a final rule in 2019 imposing a minimum community bank leverage ratio requirement of 9.0%. On April 6, 2020, as mandated under the CARES Act, the federal bank regulatory agencies adopted an interim final rule that temporarily reduced the minimum community bank leverage ratio requirement to 8.0% and provided a two quarter grace period for banks with a leverage ratio between 7.0% and 8.0%. A transition interim final rule also adopted by the federal bank regulatory agencies on April 6, 2020 provides a graduated transition from the temporary 8.0% community bank leverage ratio requirement, to the 9.0% community bank leverage ratio requirement as established under the 2019 final rule. Specifically, the transition interim final rule provides that the community bank leverage ratio will be 8.0% in the second quarter through fourth quarter of calendar year 2020, 8.5% in calendar year 2021, and 9.0% thereafter.

The following table presents the actual capital amounts and regulatory capital ratios for us and b1BANK as of the dates indicated.

	As of September 30, 2020 (Unaudited)		As of December 31, 2019	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Business First Bancshares, Inc. (Consolidated)				
Total capital (to risk weighted assets)	N/A	N/A	$ 264,495	13.30%
Tier 1 capital (to risk weighted assets)	N/A	N/A	227,265	11.43%
Common Equity Tier 1 capital (to risk weighted assets)	N/A	N/A	227,265	11.43%
CBLR and/or Tier 1 Leverage capital (to average assets)	$ 328,517	8.74%	227,265	10.56%
b1BANK				
Total capital (to risk weighted assets)	N/A	N/A	$ 254,520	12.80%
Tier 1 capital (to risk weighted assets)	N/A	N/A	242,290	12.19%
Common Equity Tier 1 capital (to risk weighted assets)	N/A	N/A	242,290	12.19%
CBLR and/or Tier 1 Leverage capital (to average assets)	$ 343,044	9.13%	242,290	11.27%

Long Term Debt

Long-term debt increased $143.0 million, or 121.2%, from December 31, 2019, to $261.0 million at September 30, 2020, primarily due to $107.1 million drawn under the PPPLF to assist with the funding of SBA PPP loans and also debt assumed in the Pedestal acquisition.

Contractual Obligations

The following tables summarize contractual obligations and other commitments to make future payments as of September 30, 2020 and December 31, 2019 (other than non-maturity deposit obligations), which consist of future cash payments associated with our contractual obligations pursuant to our FHLB advances, subordinated debt, revolving line of credit, note payables, 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 $117.1 million, excluding the $873,000 purchase premium, and $93.0 million at September 30, 2020 and December 31, 2019, respectively. As of September 30, 2020 and December 31, 2019, the FHLB advances were collateralized by a blanket floating lien on certain securities and loans, had a weighted average stated rate of 2.17% and 2.06%, respectively, and maturing within twenty-seven years. The subordinated debt totaled $25.0 million at both September 30, 2020 and December 31, 2019. This subordinated debt bears interest at a fixed rate of 6.75% through December 31, 2028 and a floating rate, based on a benchmark rate plus 369 basis points, thereafter through maturity in 2033. The revolving line of credit with FNBB had a balance of $5.0 million at September 30, 2020 and no outstanding balance at December 31, 2019. This line of credit is secured by a pledge of and security interest in the common stock of our wholly-owned subsidiary, b1BANK, and carries interest at a variable rate equal to the Wall Street Journal Prime rate. We acquired a note payable to FNBB in the amount of $7.0 million, of which $6.0 million is outstanding as of September 30, 2020, from the Pedestal acquisition and carries interest at a variable rate equal to the Wall Street Journal Prime rate.

	As of September 30, 2020				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands) (Unaudited)				
Non-cancelable future operating leases	$ 1,876	$ 3,379	$ 2,899	$ 4,758	$ 12,912
Time deposits	609,580	236,744	19,895	37	866,256
Subordinated debt	—	—	—	25,000	25,000
Advances from FHLB	15,000	75,000	23,128	3,949	117,077
Purchase premium on advances from FHLB	168	369	17	319	873
Subordinated debt - trust preferred securities	—	—	—	5,000	5,000
FNBB revolving line of credit	5,000	—	—	—	5,000
FNBB notes payable	1,000	2,000	2,000	1,000	6,000
Securities sold under agreements to repurchase	24,604	—	—	—	24,604
Paycheck protection program liquidity facility	—	107,076	—	—	107,076
Standby and commercial letters of credit	10,417	13,794	452	18	24,681
Commitments to extend credit	391,082	184,429	44,250	51,050	670,811
Total	$ 1,058,727	$ 622,791	$ 92,641	$ 91,131	$ 1,865,290

	As of December 31, 2019				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Non-cancelable future operating leases	$ 1,820	$ 3,194	$ 2,779	$ 5,449	$ 13,242
Time deposits	408,926	170,808	15,722	—	595,456
Subordinated debt	—	—	—	25,000	25,000
Advances from FHLB	10,000	60,000	23,000	—	93,000
Securities sold under agreements to repurchase	67,989	—	—	—	67,989
Standby and commercial letters of credit	7,019	16,965	450	—	24,434
Commitments to extend credit	223,850	105,174	27,187	33,686	389,897
Total	$ 719,604	$ 356,141	$ 69,138	$ 64,135	$ 1,209,018

Off-Balance Sheet Items

In the normal course of business, we enter into various transactions which, in accordance with 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 in the tables above. 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.

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, 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.

Our exposure to interest rate risk is managed by the asset-liability committee of b1BANK, 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% 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% for a 100 basis point shift, 15% for a 200 basis point shift, and 25% 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, 2020		As of December 31, 2019	
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	6.00%	(2.47)%	8.40%	2.32%
+200	5.50%	0.20%	5.50%	1.58%
+100	4.30%	2.56%	2.80%	0.79%
Base	0.00%	0.00%	0.00%	0.00%
-100	(3.00)%	12.85%	(3.20)%	(1.93)%

The results are primarily due to the balance sheet mix and behavior of demand, money market and savings deposits during such rate fluctuations. We have found that, historically, interest rates on these deposits change more slowly than changes in the discount and federal funds rates. This assumption is incorporated into the simulation model and is generally not fully reflected in a gap analysis. The assumptions incorporated into the model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and the application and timing of various strategies.

Impact of Inflation

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

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

Non-GAAP Financial Measures

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

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

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

Core Net Income. Core net income, which excludes certain income and expenses, for the quarter ended September 30, 2020, was $11.0 million, or $0.53 per diluted share, compared to core net income of $6.3 million, or $0.46 per diluted share, for the quarter ended September 30, 2019. Notable events impacting earnings for the quarter ended September 30, 2020, included the incurrence of $1.2 million in acquisition-related expenses and $635,000 in losses attributed to former bank premises and equipment, compared to the incurrence of $288,000 in acquisition-related expenses and a $594,000 loss associated with the sale of a banking center for the quarter ended September 30, 2019. Core net income for the nine months ended September 30, 2020 was $23.3 million, or $1.34 per diluted share, compared to core net income of $18.5 million, or $1.35 per diluted share, for the nine months ended September 30, 2019. Core net income for the nine months ended September 30, 2020 included the incurrence of $9.0 million in acquisition-related expenses and $509,000 in losses attributed to former bank premises and equipment, compared to the realization of gains of $581,000 associated from the sale of a banking center and the incurrence of $674,000 in acquisition-related expenses and $594,000 in losses attributed to former bank premises and equipment for the nine months ended September 30, 2020.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands, except per share data) (Unaudited)			
Interest Income:				
Interest income	$ 42,461	$ 26,320	$ 105,368	$ 76,803
Core interest income	42,461	26,320	105,368	76,803
Interest Expense:				
Interest expense	5,529	6,062	17,306	17,232
Core interest expense	5,529	6,062	17,306	17,232
Provision for Loan Losses:				
Provision for loan losses	2,491	479	9,301	2,414
Core provision expense	2,491	479	9,301	2,414
Other Income:				
Other income	4,217	1,922	12,017	8,452
Sale of Impaired Credit	-	-	-	(91)
(Gains) on former bank premises and equipment	635	594	509	594
(Gains) on sale of securities	(95)	(26)	(120)	(84)
(Gains) Losses on Sale of Banking Center	-	12	-	(581)
Core other income	4,757	2,502	12,406	8,290
Other Expenses:				
Other expenses	26,951	14,878	71,391	43,245
Acquisition-related expenses (2)	(1,206)	(288)	(8,991)	(674)
Stock option exercises - excess taxes	-	-	(71)	-
Early lease termination	-	(87)	-	(87)
Core other expenses	25,745	14,503	62,329	42,484
Pre-Tax Income:				
Pre-tax income	11,707	6,823	19,387	22,364
Sale of Impaired Credit	-	-	-	(91)
(Gains) on former bank premises and equipment	635	594	509	594
(Gains) on sale of securities	(95)	(26)	(120)	(84)
(Gains) Losses on Sale of Banking Center	-	12	-	(581)
Acquisition-related expenses (2)	1,206	288	8,991	674
Stock option exercises - excess taxes	-	-	71	-
Early lease termination	-	87	-	87
Core pre-tax income	13,453	7,778	28,838	22,963

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands, except per share data) (Unaudited)			
Provision for Income Taxes (1):				
Provision for income taxes	2,098	1,312	3,227	4,351
Tax on sale of impaired credit	-	-	-	(19)
Tax on (gains) on former bank premises and equipment	133	125	107	125
Tax on (gains) on sale of securities	(20)	(5)	(25)	(18)
Tax on sale of banking center	-	3	-	(122)
Tax on acquisition-related expenses (2)	241	60	1,607	135
Tax on stock option exercises	-	-	601	-
Tax on early lease termination	-	18	-	18
Core provision for income taxes	2,452	1,513	5,517	4,470
Net Income:				
Net income	9,609	5,511	16,160	18,013
Sale of impaired credit, net of tax	-	-	-	(72)
(Gains) on former bank premises and equipment , net of tax	502	469	402	469
(Gains) on sale of securities, net of tax	(75)	(21)	(95)	(66)
(Gains) on sale of banking center, net of tax	-	9	-	(459)
Acquisition-related expenses (2), net of tax	965	228	7,384	539
Stock option exercises, net of tax	-	-	(530)	-
Early lease termination, net of tax	-	69	-	69
Core net income	$ 11,001	$ 6,265	$ 23,321	$ 18,493
Diluted Earnings Per Share:				
Diluted earnings per share	$ 0.46	$ 0.40	$ 0.93	$ 1.32
Sale of impaired credit, net of tax	-	-	-	(0.01)
(Gains) on former bank premises and equipment , net of tax	0.02	0.03	0.02	0.03
(Gains) on sale of securities, net of tax	-	-	(0.01)	(0.01)
(Gains) on sale of banking center, net of tax	-	-	-	(0.03)
Acquisition-related expenses (2), net of tax	0.05	0.02	0.43	0.04
Stock option exercises	-	-	(0.03)	-
Early lease termination, net of tax	-	0.01	-	0.01
Core diluted earnings per share	$ 0.53	$ 0.46	$ 1.34	$ 1.35

(1) Tax rates, exclusive of certain nondeductible merger-related expenses and goodwill, utilized were 21% for both 2020 and 2019. These rates approximated the marginal tax rates for the applicable periods.

(2) Includes merger and conversion-related expenses and salary and employee benefits.

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, 2020 (Unaudited)	As of December 31, 2019
	(Dollars in thousands, except per share data)	
Tangible Shareholders' (Common) Equity		
Total shareholders' equity	$ 398,086	$ 285,097
Adjustments:		
Goodwill	(53,627)	(48,495)
Core deposit and other intangibles	(10,061)	(6,694)
Total tangible common equity	$ 334,398	$ 229,908
Common shares outstanding(1)	20,667,237	13,279,363
Book value per common share(1)	$ 19.26	$ 21.47
Tangible book value per common share(1)	16.18	17.31

(1) Excludes the dilutive effect, if any, of 385,300 and 725,300 shares of common stock issuable upon exercise of outstanding stock options and warrants as of September 30, 2020 and December 31, 2019, 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, 2020 (Unaudited)	As of December 31, 2019
	(Dollars in thousands, except per share data)	
Tangible Shareholders' (Common) Equity		
Total shareholders' equity		
Adjustments:	$ 398,086	$ 285,097
Goodwill	(53,627)	(48,495)
Core deposit and other intangibles	(10,061)	(6,694)
Total tangible common equity	$ 334,398	$ 229,908
Tangible Assets		
Total assets	$ 3,954,670	$ 2,273,835
Adjustments:		
Goodwill	(53,627)	(48,495)
Core deposit and other intangibles	(10,061)	(6,694)
Total tangible assets	$ 3,890,982	$ 2,218,646
Common Equity to Total Assets	10.1%	12.5%
Tangible Common Equity to Tangible Assets	8.6	10.4

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, 2019 filed with the SEC. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for December 31, 2019 except for the risk factors listed below.

The COVID-19 pandemic, including the measures taken by governmental authorities, businesses and individuals in response, are adversely affecting our business, financial condition, and results of operations, and the ultimate impact will depend on future developments which are uncertain and cannot be predicted, including the scope and duration of the pandemic and the response to the pandemic.

The COVID-19 pandemic has caused extensive disruptions to the global, national and regional economy. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief. While the scope, duration, and full effects of COVID-19 are rapidly evolving and not fully known, the pandemic and related efforts to contain it have disrupted economic activity, adversely affected the functioning of financial markets, prompted decreases in interest rates, increased economic and market uncertainty, and disrupted trade and supply chains. If these implications continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified in our Annual Report on Form 10-K could be exacerbated and such effects could have a material adverse effect on us in a number of ways related to credit, collateral, interest rate risk, profitability, operations, liquidity, and capital as described in more detail below.

Credit and Collateral Risk. Our business depends on our ability to successfully measure and manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual borrowers. The creditworthiness of a borrower is affected by many factors including local market conditions and general economic conditions. These risks are particularly heightened as a result of the COVID-19 pandemic.

Concern about the spread of COVID-19 has caused and is expected to continue to cause business shutdowns, limitations on commercial activity and financial transactions, labor shortages, supply chain interruptions, increased unemployment and commercial property vacancy rates, reduced profitability and ability for property owners to make mortgage payments, and overall economic and financial market instability. All of these factors cause our customers to be unable to make scheduled loan payments. If the effects of COVID-19 result in widespread and sustained repayment shortfalls on loans in our portfolio, we could incur significant delinquencies, foreclosures, and credit losses, particularly if the available collateral is insufficient to cover our exposure.

The future effects of COVID-19 on economic activity could also negatively affect collateral values associated with our existing loans and our ability to liquidate such collateral. Further, in the event of delinquencies, regulatory changes and policies designed to protect borrowers may slow or prevent us from making business decisions or may result in a delay in our taking certain remedial actions, such as foreclosure. All of these factors could cause the level of our nonperforming loans, charge-offs, and delinquencies to increase, potentially requiring significant additional provisions for credit losses.

Interest Rate and Profitability Risk. Our net interest income, lending activities, deposits, and profitability could be negatively affected by volatility in interest rates and other factors resulting from uncertainties stemming from COVID-19. In March 2020, the Federal Reserve lowered the target range for the federal funds rate to a range of 0 to 0.25 percent, citing concerns about the impact of COVID-19 on markets and stress in the energy sector. This decrease in interest rates is expected to cause a decrease in our net interest income. Higher income volatility from changes in interest rates and spreads to benchmark indices could also cause a decrease in current fair market values of our assets. Fluctuations in interest rates will 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, which could, in turn, negatively affect our net income.

In addition to risks resulting from changes in the interest rates, our profitability may be negatively affected by other aspects of our response to the COVID-19 pandemic. We have reduced or eliminated several of our normal customer service fees, which may decrease our noninterest income, and in turn, our net income. We also expect to experience lower than normal loan demand (other than PPP loans) because of reduced customer appetite for expansion, appraisal and other underwriting difficulties, and the focus from customers and our loan officers on PPP. These PPP loans may not be profitable for us; PPP loans have a maximum interest rate of 1% and our related fees may be offset by our cost for implementing the program, applying for forgiveness and servicing the loans.

Operational Risk. Our social-distancing measures and current and future restrictions on our workforce's access to our facilities could limit our ability to meet customer servicing expectations and have a material adverse effect on our operations. We rely on business processes and branch activity that largely depend on people and technology, including access to information technology systems as well as information, applications, payment systems and other services provided by third parties. In response to COVID-19, we have modified our business practices with social-distancing measures that include, among other precautions, limiting lobby access to customers on an appointment-only basis and a portion of our employees are working remotely from their homes. We have done this while simultaneously experiencing a significant increase in our employees' workloads due to increased customer needs and the necessity of allocating work of employees who have been affected by the virus or who have increased childcare and similar responsibilities as a result of the shutdown. Technology in employees' homes may not be as robust as in our offices and could cause the networks, information systems, applications, and other tools available to employees to be more limited or less reliable than in our offices. The continuation of these work-from-home measures and increased electronic interaction with our customers also introduce additional operational risk, including increased cybersecurity risk. These cyber risks include greater phishing, malware, and other cybersecurity attacks, vulnerability to disruptions of our information technology infrastructure and telecommunications systems for remote operations, increased risk of unauthorized dissemination of confidential information, limited ability to restore the systems in the event of a systems failure or interruption, greater risk of a security breach resulting in destruction or misuse of valuable information, and potential impairment of our ability to perform critical functions, including wiring funds, all of which could expose us to risks of data or financial loss, litigation and liability, and could seriously disrupt our operations and the operations of any effected customers.

Moreover, we rely on many third parties in our business operations, including appraisers of the real property collateral, vendors that supply essential services such as loan servicers, providers of financial information, systems and analytical tools, providers of electronic payment and settlement systems, and local and federal government agencies, offices, and courthouses. In light of the developing measures responding to the pandemic, many of these entities may limit the availability and access of their services. For example, mortgage loan origination could be delayed due to the limited availability of real estate appraisers for the collateral. Loan closings could be delayed related to reductions in available staff in recording offices or the closing of courthouses in certain parishes, which slows the process for title work, mortgage and UCC filings in those parishes. If the third-party service providers continue to have limited capacities for a prolonged period or if additional limitations or potential disruptions in these services materialize, it may materially and adversely affect our operations.

Liquidity Risk. Liquidity is essential to our business. Our most important source of funds is deposits because we use those deposits to fund operations. During the COVID-19 pandemic, we may experience enhanced liquidity risk. Customers may withdraw deposits to meet obligations during this time of business interruptions, or they may withdraw funds to keep cash on hand at home. Large depositors may withdraw funds in excess of FDIC deposit insurance limits as a result of economic concerns. During this challenging economic environment, our customers may also be more dependent on our credit commitments and increased draws under currently unfunded lines of credit could increase our need for liquidity. In addition, we have offered payment deferral accommodations on many of the loans in our portfolio. The resulting delay in our receipt of regularly scheduled payments will reduce available funding. Also, our investment securities provide an alternative source of funds. We invest excess funds in mortgage-backed securities and municipal bonds, among other securities. If mortgage refinancing declines due to job losses or appraisal issues, cash flows from mortgage-backed securities could decline. The municipal bond sector could also be affected due to changes in tax revenues. Any of these events could reduce our normal levels of liquidity.

Capital Risk. Adequate levels of capital enhance our ability to withstand periods of financial stress such as during the ongoing COVID-19 pandemic. For this reason, we are subject to significant regulatory capital requirements, and we currently satisfy all of those requirements. However, the ultimate impact of the pandemic is unknown. Prolonged pressures could deplete our reserves, requiring us to raise additional capital to provide sufficient resources and liquidity to meet applicable regulatory requirements, as well as to satisfy our commitments and business needs.

Our ability to raise additional capital depends on a number of factors, including without limitation our financial condition and performance, conditions in the capital markets, economic conditions, investor perceptions regarding the banking industry, and governmental activities. Many of these factors are beyond our control, and uncertainty relating to all of these factors has been significantly enhanced by the COVID-19 pandemic. The pandemic substantially increased economic and demand uncertainty and has led to disruption and volatility in capital markets. Government responses designed to curtail the spread of the virus continue to evolve and affect various aspects of the economy. The market price for securities of publicly traded financial institutions has dramatically declined, as has the public trading price of our common stock. If we need to raise additional capital in the current market environment, there is no assurance we will be successful, or that we will be able to raise capital on terms acceptable to us or without significant dilution to our existing shareholders. If we fail to maintain capital sufficient to meet regulatory requirements, we could be subject to enforcement actions or other regulatory consequences.

Because there have been no recent global pandemics of comparable global impact, we do not yet know the full extent of COVID-19's effects on our business, operations, or the global economy as a whole. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the effectiveness of our social-distancing accommodation arrangements, third party providers' ability to support our operations, and any actions taken by governmental authorities and other third parties in response to the pandemic. The uncertain future development of this crisis and the pandemic's enhancement of the various risks described above could have a material adverse effect on our business, financial condition, and results of operations.

As a participating lender in the PPP, we are subject to additional risks of litigation from our customers or other parties and regulatory enforcement regarding our processing of PPP loans, as well as risks that the SBA may not fund some or all PPP loan guaranties.

The CARES Act included a significant loan program administered through the SBA referred to as the PPP. Under the PPP, small businesses and other entities and individuals can apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. We are participating as a lender in the PPP. The PPP became available on April 3, 2020; however, because of the short timeframe between the passing of the CARES Act and the opening of the PPP, there was and continues to be a significant amount of ambiguity in the laws, rules and guidance regarding requirements for eligibility, underwriting, origination, funding, and the terms for PPP loans. This ambiguity and the speed with which we were required to implement the program expose us to regulatory and legal risks relating to noncompliance with the PPP.

Since the opening of the PPP, several other banks have been subject to litigation regarding the process and procedures that those banks used in processing applications for the PPP. Further litigation is likely with respect to the forgiveness process and as a defense to suits by banks or the SBA seeking to enforce remedies upon defaults by PPP borrowers. We may be exposed to the risk of similar litigation, from both customers and non-customers that approached us regarding PPP loans, and regarding our procedures for processing applications and funding PPP loans. Litigation can be costly, regardless of the outcome. If any such litigation is initiated against us, it may result in significant financial liability, significant litigation costs, or adversely affect our reputation.

PPP loans are also subject to the regulatory requirements that require forbearance of loan payments for a specified time and that limit our ability to pursue all available remedies in the event of a loan default. If and to the extent that PPP borrowers fail to be approved for loan forgiveness, we will hold the remaining portion of the PPP loans at unfavorable interest rates.

We also have credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by us, such as an issue with the eligibility of a borrower to receive a PPP loan. Such deficiencies may or may not be related to the ambiguity in the laws, rules, and guidance regarding the operation of the PPP. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has forgiven a portion of the loan or paid under the guaranty, seek recovery from us of any loss related to the deficiency. Any the above-described legal, regulatory and credit risks related to our participation in the PPP could have a material adverse effect on our business, financial condition, and results of operations.

We may experience an increase in nonperforming loans in the portion of our loan portfolio subject to modification under our COVID-19 Deferral Assistance Program.

As of September 30, 2020, loans with aggregate outstanding principal of approximately $908.5 million, or approximately 29.5% of our loans held for investment, have been modified under the terms of our COVID-19 Deferral Assistance Program. These modifications primarily included 90-day deferrals of principal payments or 90-day deferrals of principal and interest payments. In certain limited circumstances, we granted a 90-day deferral using a hybrid approach in which payments of principal and interest were deferred during the first part of the deferral period followed by a period in which only principal payments were deferred. In addition, we have granted a limited number of borrowers with a second 90-day deferral of principal payments on a case-by-case basis. As these deferral periods end and borrowers are required to resume normal payments of principal and interest, we expect that some of these modified loans will become nonperforming loans. We expect that borrowers in the industries most affected by COVID-19 and the related suspension of certain business activity, including hospitality, energy, non-essential retail, and healthcare, among others, may experience the most difficulty in resuming normal payments of principal and interest. Except for those borrowers of modified loans who have failed to fulfill their obligations under the modifications, these modified loans are reported as performing loans as of September 30, 2020. However, in the event that we experience a material number of our borrowers who are unable to resume normal payments following the expiration of their deferral periods, we may be required to increase our provision for loan losses, which would reduce our profitability and adversely affect our business, financial condition, results of operations and prospects.

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

(a) Not applicable.

(b) Not applicable.

(c) On December 14, 2018, the Company announced the approval of a stock repurchase program authorizing the Company to repurchase shares of its common stock with an aggregate purchase price of up to $15,000,000 from time to time, subject to limitations and conditions. The stock repurchase program was effective immediately and will continue for a period of 24 months. On October 22, 2020, the Company announced that the December 14, 2018 repurchase plan had been terminated, and on that same date the Company approved a stock repurchase plan which authorizes the repurchase of shares of its common stock with an aggregate purchase price of up to $30,000,000 from time to time, subject to certain limitations and conditions. The stock repurchase program is effective immediately and will continue until December 31, 2021. The Company did not repurchase any shares of its common stock during the quarter ended September 30, 2020.

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
2.5	Agreement and Plan of Reorganization, dated January 22, 2020, by and between Business First Bancshares, Inc., and Pedestal Bancshares, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on January 24, 2020 (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 April 23, 2020 (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on April 28, 2020 (File No. 001-38447)).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).
4.2	Form of 6.75% Fixed-to-Floating Subordinated Note due 2033 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on December 19, 2018 (File No. 001- 38447)).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	Inline XBRL Instance Document*
101.SCH	Inline XBRL Taxonomy Extension Schema Document*

101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* 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 6, 2020

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

November 6, 2020

/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 6, 2020

/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 6, 2020

/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, 2020 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 6, 2020

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

/s/ Gregory Robertson
Gregory Robertson
Chief Financial Officer