BUSINESS FIRST BANCSHARES, INC.
AND SUBSIDIARIES

BATON ROUGE, LOUISIANA

DECEMBER 31, 2012 AND 2011

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BusinessFirst
BATON ROUGE

March 27, 2013

Report of Management

Management of Business First Bancshares, Inc. and Subsidiaries is responsible for preparing the Company's annual financial statements. Management is also responsible for establishing and maintaining internal control over financial reporting presented in conformity with both accounting principles generally accepted in the United States of America and regulatory reporting in conformity with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income. The Company's internal control structure contains monitoring mechanisms, and actions are taken to correct deficiencies identified.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

It is also management's responsibility to ensure satisfactory compliance with all designated laws and regulations, and in particular, those laws and regulations concerning loans to insiders and dividend restrictions. Management concludes that the institution complied with all designated safety and soundness laws and regulations during the reporting periods for the fiscal years ended December 31, 2012 and 2011.

The subsidiary institution of the Company, Business First Bank, is subject to Part 363 and is included in this report of management.

David Melville
President, Chief Executive Officer

Steven Champney
Treasurer

HTB Hannis T. Bourgeois, LLP
Certified Public Accountants

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March 27, 2013

INDEPENDENT AUDITOR'S REPORT

To the Audit Committee and
Board of Directors
Business First Bancshares, Inc. and Subsidiaries
Baton Rouge, Louisiana

We have audited the accompanying consolidated financial statements of Business First Bancshares, Inc. and Subsidiaries, which comprise the Consolidated Balance Sheets as of December 31, 2012 and 2011, and the related Consolidated Statements of Income, Comprehensive Income, Changes in Stockholders' Equity, and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Business First Bancshares, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Respectfully submitted,

Hannis T. Bourgeois, LLP

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
Cash and Due from Banks	$ 10,759,879	$ 17,335,371
Federal Funds Sold	11,825,000	6,358,730
Securities Available for Sale, at Fair Values	173,566,737	159,921,804
Loans and Lease Receivable, Net of Allowance for Loan Losses of $5,885,027 in 2012 and $7,338,419 in 2011	454,350,987	434,517,249
Premises and Equipment, Net	3,291,778	2,596,187
Accrued Interest Receivable	2,243,851	2,532,805
Other Equity Securities	2,051,500	2,168,900
Other Real Estate Owned	170,100	1,740,477
Cash Value of Life Insurance	16,277,769	15,809,770
Other Assets	6,524,021	9,259,565
Total Assets	$ 681,061,622	$ 652,240,858

LIABILITIES

Deposits:		
Noninterest Bearing	$ 119,980,035	$ 99,682,603
Interest Bearing	446,347,640	441,930,731
Total Deposits	566,327,675	541,613,334
Federal Home Loan Bank Borrowings	40,000,000	40,000,000
Accrued Interest Payable	566,295	603,240
Other Liabilities	3,153,577	3,754,808
Total Liabilities	610,047,547	585,971,382

STOCKHOLDERS' EQUITY

Common Stock, $1 Par Value; 10,000,000 Shares Authorized; 5,311,207 and 5,308,207 Shares Issued at December 31, 2012 and 2011, Respectively	5,311,207	5,308,207
Additional Paid-in Capital	56,412,890	55,958,019
Retained Earnings	8,112,651	4,672,918
Accumulated Other Comprehensive Income (Loss)	1,438,444	473,437
Treasury Stock, 8,337 Shares at Cost	(120,887)	(120,887)
Non-Controlling Interest	(140,230)	(22,218)
Total Stockholders' Equity	71,014,075	66,269,476
Total Liabilities and Stockholders' Equity	$ 681,061,622	$ 652,240,858

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

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Interest Income:		
Interest and Fees on Loans	$ 25,000,594	$ 24,370,335
Interest and Dividends on Securities	3,581,073	4,777,568
Interest on Federal Funds Sold	23,952	20,172
Total Interest Income	28,605,619	29,168,075
Interest Expense:		
Interest on Deposits	4,246,416	5,816,735
Interest on Borrowings	1,175,397	1,219,440
Total Interest Expense	5,421,813	7,036,175
Net Interest Income	23,183,806	22,131,900
Provision for Loan Losses	2,348,752	4,618,233
Net Interest Income after Provision for Loan Losses	20,835,054	17,513,667
Other Income:		
Service Charges on Deposit Accounts	525,062	375,263
Gain (Loss) on Sales of Securities	459,484	263,539
Other Income	2,977,023	2,209,585
Total Other Income	3,961,569	2,848,387
Other Expenses:		
Salaries and Employee Benefits	12,464,284	11,517,133
Occupancy and Equipment Expense	2,307,007	2,094,538
Other Expenses	5,984,529	5,952,402
Total Other Expenses	20,755,820	19,564,073
Income Before Income Taxes	4,040,803	797,981
Provision (Credit) for Income Taxes	719,082	(282,494)
Consolidated Net Income	3,321,721	1,080,475
Net Loss Attributable to Non-Controlling Interest	(118,012)	(20,547)
Net Income Attributable to Business First Bancshares, Inc.	$ 3,439,733	$ 1,101,022

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

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Consolidated Net Income	$ 3,321,721	$ 1,080,475
Other Comprehensive Income (Loss):		
Unrealized Gains on Investment Securities (net of taxes of $497,125 and $2,561,166, respectively)	1,424,491	5,276,555
Reclassification Adjustment for (Gains) Losses included in Net Income	(459,484)	(263,539)
Other Comprehensive Income (Loss)	965,007	5,013,016
Consolidated Comprehensive Income	4,286,728	6,093,491
Net Loss Attributable to Non-Controlling Interest	(118,012)	(20,547)
Comprehensive Income Attributable to Business First Bancshares, Inc.	$ 4,404,740	$ 6,114,038

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

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Common Stock	Additional Paid-In Capital	Retained Earnings
Balances at December 31, 2010	$ 5,281,557	$ 55,332,992	$ 3,571,896
Comprehensive Income:			
Net Income	-	-	1,101,022
Other Comprehensive Income (Loss)	-	-	-
Issuance of Common Stock	26,650	368,150	-
Stock Based Compensation Cost	-	256,877	-
Balances at December 31, 2011	5,308,207	55,958,019	4,672,918
Comprehensive Income:			
Net Income	-	-	3,439,733
Other Comprehensive Income (Loss)	-	-	-
Issuance of Common Stock	3,000	42,000	-
Stock Based Compensation Cost	-	412,871	-
Balances at December 31, 2012	$ 5,311,207	$ 56,412,890	$ 8,112,651

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

Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-Controlling Interest in Equity	Total Stockholders' Equity
$ (4,539,579)	$ (120,887)	$ (1,671)	$ 59,524,308
-	-	(20,547)	1,080,475
5,013,016	-	-	5,013,016
-	-	-	394,800
-	-	-	256,877
473,437	(120,887)	(22,218)	66,269,476
-	-	(118,012)	3,321,721
965,007	-	-	965,007
-	-	-	45,000
-	-	-	412,871
$ 1,438,444	$ (120,887)	$ (140,230)	$ 71,014,075

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities:		
Consolidated Net Income	$ 3,321,721	$ 1,080,475
Adjustments to Reconcile Net Income		
to Net Cash Provided by (Used in) Operating Activities:		
Provision for Loan Losses	2,348,752	4,618,233
Depreciation and Amortization	772,608	613,497
Noncash Compensation Expense	412,871	256,877
Net Amortization of Securities	1,481,140	1,389,477
Gain on Sales of Securities	(459,484)	(263,539)
(Gain) Loss / Writedown on Other Real Estate Owned	(125,569)	414,310
Increase in Cash Value of Life Insurance	(467,999)	(520,642)
Provision (Credit) for Deferred Income Taxes	320,576	(22,428)
Non-Controlling Interest in Net Income		
of Consolidated Entity	118,012	20,547
Changes in Assets and Liabilities:		
(Increase) Decrease in Accrued Interest Receivable	288,954	(151,781)
(Increase) Decrease in Other Assets	1,841,337	(1,925,686)
Increase (Decrease) in Accrued Interest Payable	(36,945)	(398,257)
Increase (Decrease) in Other Liabilities	(601,231)	2,181,773
Net Cash Provided by (Used in) Operating Activities	9,214,743	7,292,856
Cash Flows From Investing Activities:		
Purchases of Securities Available for Sale	(104,379,942)	(115,625,671)
Proceeds from Maturities / Sales of Securities Available for Sale	69,534,880	159,826,214
Proceeds from Paydowns of Securities Available for Sale	21,640,605	20,644,350
Purchases of Other Equity Securities	(2,591,500)	(1,693,900)
Proceeds from Sales of Other Equity Securities	2,708,900	2,261,000
Net (Increase) Decrease in Loans	(22,969,196)	(44,223,903)
Purchases of Premises and Equipment	(1,468,199)	(543,676)
Proceeds from Sales of Other Real Estate	2,441,146	1,445,358
Net (Increase) Decrease in Federal Funds Sold	(5,466,270)	(6,158,291)
Net Cash Provided by (Used in) Investing Activities	(40,549,576)	15,931,481

(CONTINUED)

	2012	2011
Cash Flows From Financing Activities:		
Net Increase (Decrease) in Deposits	24,714,341	(619,955)
Net Borrowings (Repayments)	-	(12,810,000)
Issuance of Common Stock	45,000	394,800
Net Cash Provided by (Used in) Financing Activities	24,759,341	(13,035,155)
Net Increase (Decrease) in Cash and Cash Equivalents	(6,575,492)	10,189,182
Cash and Cash Equivalents at Beginning of Year	17,335,371	7,146,189
Cash and Cash Equivalents at End of Year	$ 10,759,879	$ 17,335,371
Supplemental Disclosures for Cash Flow Information:		
Cash Payments for:		
Interest on Deposits	$ 4,283,361	$ 6,214,992
Interest on Borrowings	$ 1,175,397	$ 1,219,440
Supplemental Schedule for Noncash Investing and Financing Activities:		
Change in the Unrealized Gain/Loss on Securities Available for Sale	$ 1,462,132	$ 7,574,181
Change in Deferred Tax Effect on the Unrealized Gain / Loss on Securities Available for Sale	$ (497,125)	$ (2,561,165)
Transfer of Loans to Other Real Estate	$ 745,200	$ 1,632,234

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

Note 1 – Summary of Significant Accounting Policies –

The accounting principles followed by Business First Bancshares, Inc. (Bancshares) and its wholly-owned subsidiary, Business First Bank (the Bank), and its wholly-owned subsidiary, Business First Insurance, LLC, are those which are generally practiced within the banking industry. The methods of applying those principles conform with generally accepted accounting principles and have been applied on a consistent basis. The principles which significantly affect the determination of financial position, results of operations, changes in stockholders' equity and cash flows are summarized below.

Principles of Consolidation

The consolidated financial statements include the accounts of Business First Bancshares, Inc. and its wholly-owned subsidiary, Business First Bank (the Bank), and the Bank's wholly-owned subsidiary, Business First Insurance, LLC (collectively, the Company). All significant intercompany balances and transactions have been eliminated.

Nature of Operations

The Bank operates from five full service locations and one loan production office in Louisiana (Baton Rouge, Shreveport, Mandeville, Lafayette, Lake Charles and Houma (LPO)). As a state bank, it is subject to regulation by the Office of Financial Institutions, State of Louisiana, and the Federal Deposit Insurance Corporation.

In addition to the banking operations, the Bank offers insurance products through its wholly-owned subsidiary, Business First Insurance, LLC (the LLC). The LLC consummated a 75% purchase of an insurance agency during 2010 and that insurance agency then purchased 60% of another insurance agency. The agencies purchased are licensed to operate and sell a wide range of commercial and personal insurance products in each of the Bank's markets. These additions to the Bank were done in an effort to offer a wider range of products to its customers.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions in the area.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Securities

Management determines the appropriate classification of debt securities (held to maturity, available for sale or trading) at the time of purchase and re-evaluates this classification periodically. Securities classified as available for sale are those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are recorded at fair value. Unrealized gains or losses are reported as a component of comprehensive income. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

Securities classified as held to maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are recorded at cost adjusted for amortization of premium and accretion of discount, computed by various methods approximating the interest method over their contractual lives. The Bank has no securities classified as held to maturity at December 31, 2012 and 2011.

Securities classified as trading are those securities held for resale in anticipation of short-term market movements. These securities are recorded at market value with any market adjustments included in earnings. The Bank has no securities classified as trading at December 31, 2012 and 2011.

The Bank has invested in Federal Home Loan Bank (FHLB) stock which is reflected at cost in these financial statements. As a member of the FHLB System, the Bank is required to purchase and maintain stock in an amount determined by the FHLB. The FHLB stock is redeemable at par value at the discretion of the FHLB.

Loans

Loans are stated at principal amounts outstanding less the allowance for loan losses. Interest on commercial and individual loans is accrued daily based on the principal outstanding.

Generally, the Bank discontinues the accrual of interest income when a loan becomes 90 days past due as to principal or interest. When a loan is placed on non-accrual status, previously recognized but uncollected interest is reversed to income or charged to the allowance for loan losses. Subsequent cash receipts on non-accrual loans are accounted for on the cost recovery method until the loans qualify for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Bank classifies loans as impaired when it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is based on the present value of the expected future cash flows discounted at the loan's effective interest rate or the loan's observable market price or based on the fair value of the collateral if the loan is collateral dependent.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The allowance for loan losses is based upon management's review and evaluation of the loan portfolio. Factors considered in the establishment of the allowance for loan losses include management's evaluation of specific loans; the level and composition of classified loans; historical loss experience; results of examinations by regulatory agencies; an internal asset review process; expectations of future economic conditions and their impact on particular borrowers; and other judgmental factors. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The allowance for loan losses is based on estimates of potential future losses, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and as adjustments become necessary, the effect of the change in estimate is charged to operating expenses in the period incurred. All losses are charged to the allowance for loan losses when the loss actually occurs or when management believes that the collectability of the principal is unlikely. Recoveries are credited to the allowance at the time of recovery.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is provided at rates based upon estimated useful service lives using the straight-line method for financial reporting and accelerated methods for tax reporting purposes.

The costs of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal and the resulting gains or losses are included in current operations. Expenditures for maintenance and repairs are charged to operations as incurred. Costs of major additions and improvements are capitalized.

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its costs or fair value less cost to sell.

Income Taxes

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

Deferred taxes are provided utilizing a liability method whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the reported amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company files a consolidated federal income tax return. Consolidated income tax expense is allocated on the basis of each entity's income adjusted for permanent differences.

The Company evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of December 31, 2012, the Company does not believe that it has taken any positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year.

The Company files income tax returns in the U.S. federal jurisdiction and the state of Louisiana. With few exceptions, the Company is no longer subject to federal and state income tax examinations by tax authorities for years before 2009. Any interest and penalties assessed by income taxing authorities are not significant and are included in other expenses in these financial statements.

Stock Based Compensation

As described in Note 10, the Company has issued stock warrants and stock options that incorporate stock based compensation. The Company has adopted a fair value based method of accounting for these awards. The compensation cost is measured at the grant date based on the value of the award and is recognized over the required service period, which is usually the vesting period.

Earnings Per Common Share

Basic earnings per share (EPS) represents income available to common stockholders divided by the weighted average number of common shares outstanding; no dilution for any potentially convertible shares is included in the calculation. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The potential common shares that may be issued by the Company relate to outstanding stock warrants and stock options. The weighted average number of shares of common stock was 5,310,682 and 5,305,719 shares to calculate basic EPS of $0.65 and $0.20 and 5,515,629 and 5,510,866 shares to calculate diluted EPS of $0.62 and $0.20 for the years ended December 31, 2012 and 2011, respectively.

Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and deposits in other financial institutions.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Advertising

The Company expenses all costs of advertising and promotion the first time the advertising or promotion takes place. For the years ended December 31, 2012 and 2011, the Company expensed costs of $193,971 and $241,510, respectively.

Recent Accounting Pronouncements

In April 2011, the FASB issued ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. ASU 2011-02 provides additional clarification for creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. ASU 2011-02 is effective for annual periods ending on or after December 15, 2012. The disclosure requirements contained in ASU 2011-02 are presented in the financial statements in the loans and the allowance for loan losses footnote as of December 31, 2012 and 2011.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income.* ASU 2011-05 requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in a single continuous statement of comprehensive income or in two separate consecutive statements. The effective date for ASU 2011-05 is for fiscal years ending after December 15, 2012. The adoption of ASU 2011-05 did not have a material impact on the Company's results of operations or financial position. It did require a change in presentation of stockholder's equity as the Company previously presented comprehensive income in its consolidated statement of changes in stockholders' equity.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* The objective of ASU 2013-02 is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments included in ASU 2013-02 do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013, with early adoption permitted. As the adoption of ASU 2013-02 amends only disclosure requirements, the adoption will have no impact on the Company's results of operations or financial position.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements in order to conform to the classifications adopted for reporting in 2012. These reclassifications had no effect on previously reported net income.

Subsequent Events

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through March 27, 2013, the date which the financial statements were available to be issued.

Note 2 – Cash and Due From Banks –

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. There was no required reserve at December 31, 2012 and 2011.

Note 3 – Securities –

The amortized cost and fair values of securities available for sale as of December 31, 2012 and 2011 are summarized as follows:

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$ 14,118,979	$ 110,250	$ -	$ 14,229,229
Corporate Securities	23,298,716	50,852	(207,883)	23,141,685
Mortgage-Backed Securities	67,212,627	810,216	(93,918)	67,928,925
Municipal Securities	65,235,617	3,030,885	(197,446)	68,069,056
Other Securities	1,521,338	-	(1,323,496)	197,842
	$ 171,387,277	$ 4,002,203	$ (1,822,743)	$ 173,566,737

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$ 25,000,000	$ 122,576	$ (8,880)	$ 25,113,696
Corporate Securities	11,348,601	-	(600,706)	10,747,895
Mortgage-Backed Securities	66,212,620	573,664	(119,387)	66,666,897
Municipal Securities	55,112,196	2,150,423	(34,826)	57,227,793
Other Securities	1,531,058	-	(1,365,535)	165,523
	$ 159,204,475	$ 2,846,663	$ (2,129,334)	$ 159,921,804

The amortized cost and fair values of securities available for sale as of December 31, 2012 by contractual maturity are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties. Therefore, these securities are not included in the maturity categories in the following maturity summary.

	Amortized Cost	Fair Value
Less Than One Year	$ 1,890,900	$ 1,895,772
One to Five Years	32,756,946	32,993,672
Over Five to Ten Years	37,279,007	38,392,615
Over Ten Years	32,247,797	32,355,753
Mortgage-Backed Securities	67,212,627	67,928,925
	$ 171,387,277	$ 173,566,737

The following table is a summary of securities with gross unrealized losses and fair values at December 31, 2012 and 2011, 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.

	2012					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government Agencies	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Securities	6,478,740	(20,235)	7,807,565	(187,648)	14,286,305	(207,883)
Mortgage-Backed Securities	27,984,076	(93,918)	-	-	27,984,076	(93,918)
Municipal Securities	9,177,046	(197,368)	135,324	(78)	9,312,370	(197,446)
Other Securities	-	-	197,842	(1,323,496)	197,842	(1,323,496)
	$ 43,639,862	$ (311,521)	$ 8,140,731	$ (1,511,222)	$ 51,780,593	$ (1,822,743)

	2011					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government Agencies	$ 1,991,120	$ (8,880)	$ -	$ -	$ 1,991,120	$ (8,880)
Corporate Securities	4,243,430	(105,171)	6,504,465	(495,535)	10,747,895	(600,706)
Mortgage-Backed Securities	24,944,775	(119,387)	-	-	24,944,775	(119,387)
Municipal Securities	4,367,140	(34,826)	-	-	4,367,140	(34,826)
Other Securities	-	-	165,523	(1,365,535)	165,523	(1,365,535)
	$ 35,546,465	$ (268,264)	$ 6,669,988	$ (1,861,070)	$ 42,216,453	$ (2,129,334)

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 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.

Securities available for sale with a fair value of $52,588,106 and $61,758,450, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law as of December 31, 2012 and 2011.

There were $712,926 and $480,603 realized gains from sales or redemptions of securities for the years ended December 31, 2012 and 2011, respectively. There were $253,442 and $217,064 realized losses from sales or redemptions of securities for the years ended December 31, 2012 and 2011, respectively.

The Bank has invested in the Federal Home Loan Bank of Dallas which is included in other equity securities and reflected at cost in these financial statements. The cost of these securities of $1,951,500 and $2,068,900, respectively, approximates fair value at December 31, 2012 and 2011. The Bank also has a $100,000 investment in The Independent Banker's Bank at December 31, 2012 and 2011.

Note 4 – Loans and the Allowance for Loan Losses –

Loans receivable at December 31 are summarized as follows:

	2012	2011
Real estate loans:		
One-to-four family residential	$ 26,882,536	$ 25,263,473
Commercial real estate	230,495,972	247,118,068
Multi-family residential	17,109,047	17,202,244
Land	11,088,859	11,364,820
Home equity lines of credit	4,738,962	4,886,248
Residential construction	17,599,042	10,574,236
Total real estate loans	307,914,418	316,409,089
Other loans:		
Consumer non-real estate loans	20,284,764	14,434,126
Commercial business loans	132,036,832	111,012,453
Total other loans	152,321,596	125,446,579
Total loans	460,236,014	441,855,668
Less:		
Allowance for loan losses	(5,885,027)	(7,338,419)
Net loans	$ 454,350,987	$ 434,517,249

The performing one-to-four family residential, multi-family residential, commercial real estate, and commercial loans are pledged, under a blanket lien, as collateral securing advances from the FHLB at December 31, 2012 and 2011.

The Bank is the lead lender on participations sold, without recourse, to other financial institutions which amounts are not included in the Balance Sheet. The unpaid principal balances of mortgages and other loans serviced for others were approximately $32.7 million and $24.0 million at December 31, 2012 and 2011, respectively.

In the ordinary course of business, the Bank has granted loans to directors, officers and employees and their affiliates. Such loans were made on substantially the same terms as those prevailing at the time for comparable transactions with other customers. Such loans amounted to $36,013,565 and $32,705,359 at December 31, 2012 and 2011, respectively.

The activity in loans to directors, officers and employees is as follows:

	2012	2011
Balance - Beginning of Year	$ 32,705,359	$ 43,674,851
New Loans	14,959,297	6,569,126
Repayments	(11,651,091)	(17,538,618)
Balance - End of Year	$ 36,013,565	$ 32,705,359

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. The following table sets forth, as of December 31, 2012 and 2011, 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

	2012					
	Real Estate 1 to 4 Family	Real Estate Commercial and Other	Real Estate Construction	Commercial	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 1,191,837	$ 2,136,077	$ 406,079	$ 3,530,950	$ 73,476	$ 7,338,419
Charge-offs	(69,856)	(3,201,519)	(116,900)	(670,257)	(31,541)	(4,090,073)
Recoveries	12,926	28,000	-	208,604	38,399	287,929
Provision	266,118	1,263,696	17,643	601,339	199,956	2,348,752
Ending Balance	$ 1,401,025	$ 226,254	$ 306,822	$ 3,670,636	$ 280,290	$ 5,885,027
Ending Balance:						
Individually evaluated for impairment	$ 263,455	$ -	$ -	$ 250,000	$ 89,686	$ 603,141
Collectively evaluated for impairment	$ 1,137,570	$ 226,254	$ 306,822	$ 3,420,636	$ 190,604	$ 5,281,886
Loans receivable:						
Ending Balance	$ 31,621,498	$ 258,693,878	$ 17,599,042	$ 132,036,832	$ 20,284,764	$ 460,236,014
Ending Balance:						
Individually evaluated for impairment	$ 3,793,200	$ 8,866,788	$ 4,817,728	$ 355,425	$ 610,447	$ 18,443,588
Collectively evaluated for impairment	$ 27,828,298	$ 249,827,090	$ 12,781,314	$ 131,681,407	$ 19,674,317	$ 441,792,426

	2011					
	Real Estate 1 to 4 Family	Real Estate Commercial and Other	Real Estate Construction	Commercial	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 796,465	$ 4,183,872	$ 186,975	$ 2,461,030	$ 377,593	$ 8,005,935
Charge-offs	(254,941)	(3,881,630)	(2,791)	(938,376)	(436,855)	(5,514,593)
Recoveries	99,347	6,948	649	99,784	22,116	228,844
Provision	550,966	1,826,887	221,246	1,908,512	110,622	4,618,233
Ending Balance	$ 1,191,837	$ 2,136,077	$ 406,079	$ 3,530,950	$ 73,476	$ 7,338,419
Ending Balance:						
Individually evaluated for impairment	$ 334,878	$ 358,729	$ -	$ 541,520	$ -	$ 1,235,127
Collectively evaluated for impairment	$ 856,959	$ 1,777,348	$ 406,079	$ 2,989,430	$ 73,476	$ 6,103,292
Loans receivable:						
Ending Balance	$ 30,149,721	$ 275,685,132	$ 10,574,236	$ 111,012,453	$ 14,434,126	$ 441,855,668
Ending Balance:						
Individually evaluated for impairment	$ 1,314,688	$ 19,537,669	$ 403,791	$ 1,824,710	$ 150,290	$ 23,231,148
Collectively evaluated for impairment	$ 28,835,033	$ 256,147,463	$ 10,170,445	$ 109,187,743	$ 14,283,836	$ 418,624,520

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 December 31, 2012 and 2011, there were no loan balances outstanding more than 90 days past due and still accruing interest. As of December 31, 2012 and 2011, loan balances outstanding on non-accrual status amounted to $8,084,327 and $10,820,072, respectively. The Bank considers all loans more than 90 days past due as nonperforming loans.

As of December 31, 2012 and 2011, the credit quality indicators (performing and nonperforming loans), disaggregated by class of loan, are as follows:

Credit Quality Indicators – Credit Risk Profile Based on Payment Activity

	2012		
	Performing	Nonperforming	Total
Real Estate Loans:			
1 to 4 Family	$ 30,108,952	$ 1,512,546	$ 31,621,498
Multifamily	15,938,478	1,170,569	17,109,047
Commercial RE	225,621,679	4,874,293	230,495,972
Residential Construction	17,599,042	-	17,599,042
Other	11,088,859	-	11,088,859
Other Loans:			
Commercial	131,681,407	355,425	132,036,832
Consumer	20,113,270	171,494	20,284,764
Total	$ 452,151,687	$ 8,084,327	$ 460,236,014

	2011		
	Performing	Nonperforming	Total
Real Estate Loans:			
1 to 4 Family	$ 28,835,032	$ 1,314,689	$ 30,149,721
Multifamily	17,202,244	-	17,202,244
Commercial RE	239,896,954	7,221,114	247,118,068
Residential Construction	10,170,445	403,791	10,574,236
Other	11,364,820	-	11,364,820
Other Loans:			
Commercial	109,239,690	1,772,763	111,012,453
Consumer	14,326,411	107,715	14,434,126
Total	$ 431,035,596	$ 10,820,072	$ 441,855,668

The following table reflects certain information with respect to the loan portfolio delinquencies by loan class and amount as of December 31, 2012 and 2011:

Aged Analysis of Past Due Loans Receivable

	2012						
	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:							
1 to 4 Family	$ 785,384	$ 218,500	$ 545,740	$ 1,549,624	$ 30,071,874	$ 31,621,498	$ -
Multifamily	1,170,569	-	-	1,170,569	15,938,478	17,109,047	-
Commercial Real Estate	-	401,690	3,242,165	3,643,855	226,852,117	230,495,972	-
Residential Construction	-	-	-	-	17,599,042	17,599,042	-
Other	-	-	-	-	11,088,859	11,088,859	-
Other Loans:							
Commercial	91,134	-	318,386	409,520	131,627,312	132,036,832	-
Consumer	231,660	-	171,494	403,154	19,881,610	20,284,764	-
Total	$ 2,278,747	$ 620,190	$ 4,277,785	$ 7,176,722	$ 453,059,292	$ 460,236,014	$ -

	2011						
	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:							
1 to 4 Family	$ -	$ -	$ 1,314,689	$ 1,314,689	$ 28,835,032	$ 30,149,721	$ -
Multifamily	-	-	-	-	17,202,244	17,202,244	-
Commercial Real Estate	51,672	-	7,221,114	7,272,786	239,845,282	247,118,068	-
Residential Construction	-	-	403,791	403,791	10,170,445	10,574,236	-
Other	-	-	-	-	11,364,820	11,364,820	-
Other Loans:							
Commercial	-	-	1,772,763	1,772,763	109,239,690	111,012,453	-
Consumer	-	-	107,715	107,715	14,326,411	14,434,126	-
Total	$ 51,672	$ -	$ 10,820,072	$ 10,871,744	$ 430,983,924	$ 441,855,668	$ -

Loan Receivables on Nonaccrual Status

	2012	2011
Real Estate Loans:		
1 to 4 Family	$ 1,512,546	$ 1,314,689
Multifamily	1,170,569	-
Commercial Real Estate	4,874,293	7,221,114
Residential Construction	-	403,791
Other	-	-
Other Loans:		
Commercial	355,425	1,772,763
Consumer	171,494	107,715
Total	$ 8,084,327	$ 10,820,072

The following is a summary of information pertaining to impaired loans as of December 31, 2012 and 2011. The interest income recognized for impaired loans was insignificant.

Impaired Loans for the Years Ended December 31, 2012 and 2011

	2012			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Real Estate Loans				
1 to 4 Family	$ 249,045	$ 249,045	$ 263,455	$ 649,731
Multifamily	-	-	-	-
Commercial Real Estate	-	-	-	3,250,550
Residential Construction	-	-	-	-
Other	-	-	-	-
Other Loans				
Commercial	240,088	1,020,740	250,000	459,754
Consumer	171,494	171,494	89,686	96,269
	$ 660,627	$ 1,441,279	$ 603,141	$ 4,456,304
With no allowance reorded:				
Real Estate Loans				
1 to 4 Family	$ 3,544,155	$ 3,544,155	$ -	$ 3,063,106
Multifamily	1,170,569	1,170,569	-	789,102
Commercial Real Estate	12,513,947	14,319,806	-	16,023,888
Residential Construction	-	-	-	163,994
Other	-	-	-	-
Other Loans				
Commercial	115,337	115,337	-	401,976
Consumer	438,953	438,953	-	476,845
	$ 17,782,961	$ 19,588,820	$ -	$ 20,918,911
Total Impaired Loans:				
Real Estate Loans				
1 to 4 Family	$ 3,793,200	$ 3,793,200	$ 263,455	$ 3,712,837
Multifamily	1,170,569	1,170,569	-	789,102
Commercial Real Estate	12,513,947	14,319,806	-	19,274,438
Residential Construction	-	-	-	163,994
Other	-	-	-	-
Other Loans				
Commercial	355,425	1,136,077	250,000	861,730
Consumer	610,447	610,447	89,686	573,114
	$ 18,443,588	$ 21,030,099	$ 603,141	$ 25,375,215

	2011			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Real Estate Loans				
1 to 4 Family	$ 886,600	$ 886,600	$ 334,878	$ 868,395
Multifamily	-	-	-	-
Commercial Real Estate	3,509,756	5,157,391	358,729	3,360,617
Residential Construction	191,491	191,491	-	215,742
Other	-	-	-	-
Other Loans				
Commercial	1,058,864	1,205,652	541,520	1,474,723
Consumer	-	-	-	72,666
	$ 5,646,711	$ 7,441,134	$ 1,235,127	$ 5,992,143
With no allowance reorded:				
Real Estate Loans				
1 to 4 Family	$ 428,088	$ 454,640	$ -	$ 869,103
Multifamily	-	-	-	31,426
Commercial Real Estate	16,027,913	17,712,206	-	19,719,550
Residential Construction	212,300	215,091	-	122,907
Other	-	-	-	-
Other Loans				
Commercial	765,846	794,018	-	928,145
Consumer	150,290	150,290	-	259,523
	$ 17,584,437	$ 19,326,245	$ -	$ 21,930,654
Total Impaired Loans:				
Real Estate Loans				
1 to 4 Family	$ 1,314,688	$ 1,341,240	$ 334,878	$ 1,737,498
Multifamily	-	-	-	31,426
Commercial Real Estate	19,537,669	22,869,597	358,729	23,080,167
Residential Construction	403,791	406,582	-	338,649
Other	-	-	-	-
Other Loans				
Commercial	1,824,710	1,999,670	541,520	2,402,868
Consumer	150,290	150,290	-	332,189
	$ 23,231,148	$ 26,767,379	$ 1,235,127	$ 27,922,797

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 years ended December 31, 2012 and 2011, the concessions granted to certain borrowers included extending the payment due dates, lowering the contractual interest rate, reducing accrued interest, and reducing the debt's face or maturity amount.

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

The following tables present informative data regarding loan modifications occurring during the years ended December 31, 2012 and 2011.

Modifications as of December 31, 2012:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructing			
Real Estate Loans:			
1 - 4 Family	10	$ 2,272,480	$ 1,770,092
Multifamily		-	-
Commercial Real Estate	10	14,059,590	10,984,624
Residential Construction		-	-
Other		-	-
Other Loans:			
Commercial	4	1,572,687	323,495
Consumer	2	139,354	124,683
Total Loans	26	$ 18,044,111	$ 13,202,894

Modifications as of December 31, 2011:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructing			
Real Estate Loans:			
1 - 4 Family	5	$ 1,230,006	$ 842,723
Multifamily		-	-
Commercial Real Estate	13	22,369,889	19,446,896
Residential Construction	1	218,636	212,300
Other		-	-
Other Loans:			
Commercial	3	1,525,447	1,156,248
Consumer	2	141,425	137,941
Total Loans	24	$ 25,485,403	$ 21,796,108

The Bank had no troubled debt restructurings that defaulted subsequent to the restructuring through the date the financial statements were issued.

Note 5 – Premises and Equipment –

Bank premises and equipment at December 31, 2012 and 2011 consist of the following:

	2012	2011
Bank Premises	$ 2,133,741	$ 1,738,686
Furniture and Equipment	4,036,689	2,963,545
	6,170,430	4,702,231
Less: Accumulated Depreciation	(2,878,652)	(2,106,044)
	$ 3,291,778	$ 2,596,187

The provision for depreciation and amortization charged to operating expenses was $772,608 and $613,497 for the years ended December 31, 2012 and 2011, respectively.

Note 6 – Deposits –

Deposit accounts at December 31, 2012 and 2011 are summarized as follows:

	2012	2011
Noninterest Bearing - DDA	$ 30,086,434	$ 43,987,792
Noninterest Bearing - Money Market Account	89,893,601	55,694,811
Noninterest Bearing Deposits	119,980,035	99,682,603
Interest Bearing - DDA	6,722,451	8,602,500
NOW and Super NOW Accounts	5,057,055	29,516,787
Money Market Accounts	234,135,369	196,894,619
Certificates of Deposit Over $100,000	142,695,007	140,323,336
Other Certificates of Deposit	57,737,758	66,593,489
Interest Bearing Deposits	446,347,640	441,930,731
Total Deposits	$ 566,327,675	$ 541,613,334

Approximately 55.9% of certificates of deposit as of December 31, 2012 have stated maturity dates during 2013 and the remaining 44.1% have stated maturity dates during 2014 and beyond. Interest expense on certificates of deposit over $100,000 for the years ended December 31, 2012 and 2011 amounted to $1,712,173 and $2,271,716, respectively.

At December 31, 2012 and 2011, total deposits for the top three customer relationships was approximately $62 million and $70 million, respectively, which represented 10.9% and 12.9% of total deposits, respectively. Brokered deposits were approximately $85,429,000 and $101,886,000 at December 31, 2012 and 2011, respectively. Included in these brokered deposits are public fund deposits of approximately $25,414,000 and $29,375,000 at December 31, 2012 and 2011, respectively. Other public fund deposits were approximately $40,833,000 and $53,006,000 at December 31, 2012 and 2011, respectively.

Note 7 – Borrowings –

The Bank had outstanding advances from the Federal Home Loan Bank (FHLB) of $40,000,000 at December 31, 2012 and 2011 consisting of:

One fixed rate loan of $15,000,000 with interest at 1.90% paid monthly. Principal is due at maturity in December 2018 with quarterly call options beginning in 2013, and

One fixed rate loan of $25,000,000 with interest at 3.45% paid monthly and principal due at maturity in December 2028.

These advances are collateralized by the Bank's loan portfolio with an available collateral blanket of approximately $196.1 million. Total unused advances available from FHLB at December 31, 2012 were approximately $156.1 million with a pledge of the Bank's loan portfolio.

The Bank has outstanding lines of credit with several of its correspondent banks available to assist in the management of short-term liquidity. These agreements provide for interest based upon the federal funds rate on the outstanding balance. Total available lines of credit as of December 31, 2012 and 2011 were $78,500,000 and $69,500,000, respectively. There was no balance on these lines at December 31, 2012 and 2011.

Note 8 – Income Taxes –

The consolidated provision (credit) for income taxes consists of the following:

	2012	2011
Provision (Credit) for Current Taxes - Federal	$ 398,506	$ (260,066)
Provision (Credit) for Deferred Taxes	320,576	(22,428)
	$ 719,082	$ (282,494)

The provision (credit) for federal income taxes differs from the amount computed by applying federal statutory rates to income from operations as indicated in the following analysis:

	2012	2011
Federal Statutory Income Tax at 34%	$ 1,373,873	$ 271,313
Tax Exempt Income	(682,547)	(515,700)
Other - Net	27,756	(38,107)
	$ 719,082	$ (282,494)

The deferred tax provision (credit) consists of the following timing differences:

	2012	2011
Allowance for Loan Losses	$ 494,153	$ 226,956
Amortization of Start-Up Costs	13,507	13,508
Stock Warrants and Options	(155,676)	(103,276)
Depreciation	(52,366)	40,017
Accretion Income	-	(4,437)
Other Real Estate	23,103	(29,429)
Deferred Compensation	(2,145)	(165,767)
Net Deferred Tax Provision (Credit)	$ 320,576	$ (22,428)

The net deferred tax asset at December 31, 2012 and 2011 is included in other assets. The components of the deferred tax assets (liabilities) are as follows:

	2012	2011
Allowance for Loan Losses	$ 2,000,909	$ 2,495,062
Amortization of Start-Up Costs	109,185	122,692
Stock Warrants and Options	704,112	548,436
Depreciation	(531,458)	(583,824)
Unrealized (Gain) Loss on Securities	(741,046)	(243,892)
Other Real Estate	6,326	29,429
Deferred Compensation	426,377	424,232
Net Deferred Tax Asset	$ 1,974,405	$ 2,792,135

Note 9 – Stockholders' Equity and Regulatory Matters –

Stockholders' Equity of the Company includes the undistributed earnings of the Bank. The Company pays dividends from its assets, which are provided primarily by dividends from the Bank. Certain restrictions exist regarding the ability of the Bank to pay cash distributions. Louisiana statutes require approval to pay distributions in excess of a bank's earnings in the current year plus retained net profits for the preceding year. There were no dividends declared or paid by the Company for the years ended December 31, 2012 and 2011.

The Company and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum regulatory capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators, that if undertaken, could have a direct material effect on the Company's and the Bank's financial statements.

Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines involving quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios. As detailed below, as of December 31, 2012 and 2011, the Bank met all of the capital adequacy requirements to which it is subject.

As of December 31, 2012 and 2011, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To maintain categorized as well capitalized, the Bank will have to maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the prompt corrective action category.

The following is a summary of the Bank's actual capital amounts and ratios at December 31, 2012 and 2011 which approximate the amounts and ratios for the Company (consolidated) at December 31, 2012 and 2011:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2012:			(Dollars in Thousands)			
Total Capital (to Risk-Weighted Assets)	$72,906	12.67%	$46,019	8.00%	$57,524	10.00%
Tier I Capital (to Risk-Weighted Assets)	$67,021	11.65%	$23,010	4.00%	$34,515	6.00%
Tier I Leveraged Capital (to Average Assets)	$67,021	9.84%	$27,232	4.00%	$34,040	5.00%
December 31, 2011:						
Total Capital (to Risk-Weighted Assets)	$69,790	13.29%	$42,019	8.00%	$52,524	10.00%
Tier I Capital (to Risk-Weighted Assets)	$63,215	12.04%	$21,010	4.00%	$31,514	6.00%
Tier I Leveraged Capital (to Average Assets)	$63,215	9.45%	$26,768	4.00%	$33,460	5.00%

Note 10 – Stock Based Compensation –

Stock Warrants

In connection with the organization of the Company and the Bank, stock warrants were issued to organizers. The warrants may be exercised by the holders for the purchase of 101,000 shares of common stock of the Company at the exercise price of $10 per share (warrant). The warrants were fully vested on February 1, 2011 and will expire in 2016.

At December 31, 2012 and 2011, warrants for 101,000 shares at a weighted average exercise price of $10.00 were outstanding. At December 31, 2012, warrants for 101,000 shares were exercisable, and there were no nonvested and no unrecognized compensation.

As provided in the warrant agreement for 3,000 shares (warrants), the holder has the option to receive cash for each warrant equal to the difference between the book value per share of common stock of the Company (as of the end of the quarter immediately preceding the date on which the exercise notice was delivered to be Company) less the exercise price. These warrants are considered liability awards and will be recorded at the intrinsic value at each reporting date. At December 31, 2012 and 2011, expenses of $0 and $6,360 have been recognized for these awards, respectively.

Using the Black-Scholes pricing model for the remaining 98,000 shares (warrants) outstanding, the calculated value of $2.50 per share (warrant) was estimated on the date of grant using the following assumptions: expected dividends of 1%, expected life or term of 6.5 years, risk-free interest rate of 5.04%, and expected volatility of 13.19%. The expected volatility was estimated considering the historical volatility of an appropriate industry sector.

Stock Options

The Company has a stock option plan with 1,500,000 shares available to be granted as options under the plan. Under the provisions of the plan, the option price cannot be less than the fair value of the underlying common stock as of option grant date and the maximum option term cannot exceed ten years.

During the years ended December 31, 2012 and 2011, total options of 62,400 and 176,050 were granted, respectively, to officers and other key employees. Compensation expense of approximately $447,000 and $251,000 was recognized in 2012 and 2011, respectively. The stock options granted were issued at an exercise price of $15 per share and with vesting periods of three to four years.

The Company uses the Black-Scholes option pricing model to estimate the calculated value of the various share-based awards with the following assumptions for the indicated periods.

	For the Year Ended December 31,	
	2012	2011
Risk-Free Interest Rate	0.63% - 1.01%	0.92% - 2.14%
Expected Dividend Yield	0.00%	0.00%
Expected Volatility	36.46% - 37.80%	32.91% - 36.25%
Expected Life in Years	5 years	5 years
Weighted Average Calculated Value of Options Granted	$4.96	$5.00

The following is an analysis of the activity related to the stock options:

	Number of Options	Weighted Average Exercise Price
Outstanding Options, December 31, 2011	905,750	$12.16
Granted	62,400	15.00
Exercised	-	-
Forfeited or Expired	(5,300)	14.43
Outstanding Options, December 31, 2012	962,850	$12.33

At December 31, 2012, options for 510,545 shares at a weighted average exercise price of $11.68 were vested and exercisable, and there were 452,305 nonvested options and approximately $2.0 million of unrecognized compensation costs related to these options which is expected to be recognized in the future.

Restricted Stock

The Company established a restricted stock plan to allow for the issuance of restricted stock awards that may not be sold or otherwise transferred until certain restrictions have lapsed. The restricted shares are subject to a right of first refusal in favor of the Company. The share-based compensation expense for these awards is determined based on the market price of the Company's common stock at the date of grant applied to the number of shares granted and is recognized as compensation expense (directors fees) over the vesting period. For the years ended December 31, 2012 and 2011, the expense associated with these awards totaled $0 and $44,000, respectively.

The following table represents the restricted stock activity.

	Number of Shares
Shares Unvested at December 31, 2011	4,000
Granted	-
Earned and Issued	(4,000)
Shares Unvested at December 31, 2012	-

Note 11 – Employee Benefit Plans –

Defined Contribution Plan

The Bank has a defined contribution plan qualified under Internal Revenue Code 401(K) for those employees who meet the eligibility requirements. Contributions may be made by eligible employees subject to Internal Revenue Service limits. The Bank contributes a matching contribution up to 4% of wages which totaled $295,666 and $235,135 and is included in salaries and employees benefits for the years ended December 31, 2012 and 2011, respectively.

Deferred Compensation

During the year ended December 31, 2009, the Company established unfunded nonqualified deferred compensation agreements for the purpose of providing deferred compensation as retirement benefits for a select group of management. At December 31, 2012 and 2011, the Company had recorded accrued liabilities of $1,117,680 and $997,071, respectively. The expense related to the deferred compensation agreements was $93,942 and $391,549 for the years ended December 31, 2012 and 2011, respectively.

Note 12 – Other Expenses –

An analysis of Other Expenses is as follows for the years ended December 31, 2012 and 2011:

	2012	2011
Business Development	$ 447,975	$ 524,067
Data Processing Fees	535,368	539,161
Directors Fees	224,334	150,418
Insurance	185,835	132,328
Legal and Professional Fees	972,784	854,252
Office Supplies and Printing	271,684	199,525
Regulatory Assessments	939,656	1,114,064
Taxes and Licenses	22,399	22,864
Other	2,384,494	2,415,723
	$ 5,984,529	$ 5,952,402

Note 13 – Financial Instruments with Off-Balance-Sheet Risk –

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 $109.5 million and standby and commercial letters of credit of approximately $8.4 million at December 31, 2012.

Note 14 – Concentrations of Credit –

The majority of the Bank's business activities are with customers in the Bank's market area, which consists primarily of East Baton Rouge, Bossier, Caddo, St. Tammany, Lafayette, Calcasieu, Terrebonne and adjacent parishes. The majority of such customers are depositors of the Bank. The concentrations of credit by type of loan are shown in Note 4. The Bank, as a matter of policy, does not extend credit to any single borrower or group of related borrowers in excess of the Bank's legal lending limits. Most of the Bank's credits are to individuals and businesses secured by real estate. A substantial portion of their ability to pay on their debt is dependent on the local economy and industries in the areas.

Within the loan portfolio, the Bank has a concentration of credits secured by real estate. The Bank had extended credit secured by non-residential real estate totaling approximately $197 million and $218 million, which accounted for 43% and 49% of total loans at December 31, 2012 and 2011, respectively. Additionally, the Bank had extended credit secured by construction and land

development totaling approximately $62 million and $51 million, respectively; these loans represented 13% and 12% of total loans at December 31, 2012 and 2011, respectively.

The Bank maintains amounts on deposit and federal funds sold with correspondent banks which may periodically exceed the federally insured amount.

Note 15 – Commitments and Contingencies –

Leases

The Bank leases certain branch offices through non-cancelable operating leases with terms that range from four to five years and renewal options for certain of the leases. Rental expense under these agreements was $1,265,744 and $1,241,033 for the years ended December 31, 2012 and 2011, respectively.

Future minimum lease payments under these leases are as follows:

2013	$ 1,111,088
2014	1,057,972
2015	1,038,314
2016	900,413
2017 and Thereafter	2,057,351
	$ 6,165,138

Other

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

Note 16 – Fair Value of Financial Instruments –

Fair Value Disclosures

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

- Level 1 – Includes the most reliable sources, and includes quoted prices in active markets for identical assets or liabilities.

- Level 2 – Includes observable inputs. Observable inputs include inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates) as well as inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

- Level 3 – Includes unobservable inputs and should be used only when observable inputs are unavailable.

Recurring Basis

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

The following tables present the balance of assets and liabilities measured on a recurring basis as of December 31, 2012 and 2011. 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	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Available for Sale:				
U.S. Government Agency Securities	$ 14,229,229	$ -	$ 14,229,229	$ -
Corporate Securities	23,141,685	-	23,141,685	-
Mortgage-Backed Securities	67,928,925	-	67,928,925	-
Municipal Securities	68,069,056	-	68,069,056	-
Other Securities	197,842	-	197,842	-
Total	$ 173,566,737	$ -	$ 173,566,737	$ -
December 31, 2011				
Available for Sale:				
U.S. Government Agency Securities	$ 25,113,696	$ -	$ 25,113,696	$ -
Corporate Securities	10,747,895	-	10,747,895	-
Mortgage-Backed Securities	66,666,897	-	66,666,897	-
Municipal Securities	57,227,793	-	57,227,793	-
Other Securities	165,523	-	165,523	-
Total	$ 159,921,804	$ -	$ 159,921,804	$ -

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.

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	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Assets:				
Impaired Loans	$ 17,840,447	$ -	$ 17,840,447	$ -
Repossessed Assets	211,606	-	211,606	-
Total	$ 18,052,053	$ -	$ 18,052,053	$ -
December 31, 2011				
Assets:				
Impaired Loans	$ 21,996,021	$ -	$ 21,996,021	$ -
Repossessed Assets	1,740,477	-	1,740,477	-
Total	$ 23,736,498	$ -	$ 23,736,498	$ -

Fair Value Financial Instruments

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

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

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

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

Loans – The fair value for loans is estimated using discounted cash flow analyses, with interest rates currently being offered for similar loans to borrowers with similar credit rates. Loans with similar

classifications are aggregated for purposes of the calculations. The allowance for loan losses, which was used to measure the credit risk, is subtracted from loans.

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 December 31, 2012 and 2011 are as follows:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and Short-Term Investments	$ 22,584,879	$ 22,584,879	$ 23,694,101	$ 23,694,101
Securities	173,566,737	173,566,737	159,921,804	159,921,804
Loans - Net	454,350,987	451,981,000	434,517,249	428,865,000
	$ 650,502,603	$ 648,132,616	$ 618,133,154	$ 612,480,905
Financial Liabilities:				
Deposits	$ 566,327,675	$ 565,444,000	$ 541,613,334	$ 569,721,000
Borrowings	40,000,000	41,636,000	40,000,000	41,079,000
	$ 606,327,675	$ 607,080,000	$ 581,613,334	$ 610,800,000

Note 17 – Financial Statements – Parent Company Only –

The financial statements for Business First Bancshares, Inc. (Parent Company) are as follows:

BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011

Assets:	2012	2011
Cash	$ 1,581,912	$ 1,690,727
Investment in Subsidiaries	68,631,604	63,840,142
Other Assets	940,789	760,825
Total Assets	$ 71,154,305	$ 66,291,694
Stockholders' Equity:		
Common Stock	$ 5,311,207	$ 5,308,207
Additional Paid-in Capital	56,412,890	55,958,019
Retained Earnings	9,551,095	5,146,355
Treasury Stock	(120,887)	(120,887)
Total Liabilities and Stockholders' Equity	$ 71,154,305	$ 66,291,694

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Income:		
Interest	$ 5,245	$ 4,632
Expenses:		
Other Operating Expenses	575,931	369,314
Income (Loss) before Income Taxes and Equity in Undistributed Net Income of Subsidiaries	(570,686)	(364,682)
Income Tax Expense (Benefit)	(183,964)	(139,558)
Income (Loss) before Equity in Undistributed Net Income of Subsidiaries	(386,722)	(225,124)
Equity in Undistributed Net Income of Subsidiaries	3,826,455	1,326,146
Net Income	$ 3,439,733	$ 1,101,022

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities:		
Net Income	$ 3,439,733	$ 1,101,022
Adjustments to Reconcile Net Income to Net		
Cash Provided by (Used in) Operating Activities:		
Equity in Undistributed Net Income of Subsidiaries	(3,826,455)	(1,326,146)
Noncash Compensation Expense	412,871	256,877
Changes in Assets and Liabilities:		
Increase in Other Assets	(179,964)	(151,432)
Net Cash Used in Operating Activities	(153,815)	(119,679)
Cash Flows From Investing Activities:		
Capital Contributions to Subsidiaries	-	(750,000)
Net Cash Used in Investing Activities	-	(750,000)
Cash Flows From Financing Activities:		
Issuance of Common Stock	45,000	394,800
Net Cash Provided by Financing Activities	45,000	394,800
Net Decrease in Cash	(108,815)	(474,879)
Cash - Beginning of Year	1,690,727	2,165,606
Cash - End of Year	$ 1,581,912	$ 1,690,727