UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2023

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 ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	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. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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 July 28, 2023, the issuer has outstanding 25,344,168 shares of common stock, par value $1.00 per share.

BUSINESS FIRST BANCSHARES, INC.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2023 (Unaudited)	December 31, 2022
ASSETS		
Cash and Due from Banks	$ 180,972	$ 152,740
Federal Funds Sold	173,850	15,606
Securities Available for Sale, at Fair Values (Amortized Cost of $980,170 at June 30, 2023 and $985,599 at December 31, 2022)	877,774	890,751
Mortgage Loans Held for Sale	435	304
Loans and Lease Receivable, Net of Allowance for Loan Losses of $42,013 at June 30, 2023 and $38,178 at December 31, 2022	4,856,724	4,567,998
Premises and Equipment, Net	63,037	63,177
Accrued Interest Receivable	26,861	25,666
Other Equity Securities	34,824	37,467
Other Real Estate Owned	1,587	1,372
Cash Value of Life Insurance	95,302	91,958
Deferred Taxes	31,553	31,194
Goodwill	88,543	88,543
Core Deposit and Customer Intangible	12,993	14,042
Other Assets	10,194	9,642
Total Assets	$ 6,454,649	$ 5,990,460
LIABILITIES		
Deposits:		
Noninterest Bearing	$ 1,429,376	$ 1,549,381
Interest Bearing	3,585,067	3,270,964
Total Deposits	5,014,443	4,820,345
Federal Funds Purchased	-	14,057
Securities Sold Under Agreements to Repurchase	23,230	20,208
Short Term Borrowings	9	9
Bank Term Funding Program	300,000	-
Federal Home Loan Bank Borrowings	362,162	410,100
Subordinated Debt	103,822	110,749
Subordinated Debt - Trust Preferred Securities	5,000	5,000
Accrued Interest Payable	7,666	2,092
Other Liabilities	37,349	27,419
Total Liabilities	5,853,681	5,409,979
Commitments and Contingencies (See Note 11)		
SHAREHOLDERS' EQUITY		
Preferred Stock, No Par Value; 5,000,000 Shares Authorized; 72,010 Shares ($1,000 Liquidation Preference) Issued at both June 30, 2023 and December 31, 2022, respectively	71,930	71,930
Common Stock, $1 Par Value; 50,000,000 Shares Authorized; 25,344,168 and 25,110,313 Shares Issued and Outstanding at June 30, 2023 and December 31, 2022, respectively	25,344	25,110
Additional Paid-in Capital	395,875	393,690
Retained Earnings	189,115	163,955
Accumulated Other Comprehensive Loss	(81,296)	(74,204)
Total Shareholders' Equity	600,968	580,481
Total Liabilities and Shareholders' Equity	$ 6,454,649	$ 5,990,460

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Interest Income:				
Interest and Fees on Loans	$ 79,223	$ 49,639	$ 152,991	$ 89,822
Interest and Dividends on Non-taxable Securities	1,101	1,080	2,166	2,124
Interest and Dividends on Taxable Securities	3,996	3,063	7,713	5,863
Interest on Federal Funds Sold and Due From Banks	1,528	232	2,470	327
Total Interest Income	85,848	54,014	165,340	98,136
Interest Expense:				
Interest on Deposits	23,680	2,557	42,608	4,820
Interest on Borrowings	8,842	1,895	16,657	3,279
Total Interest Expense	32,522	4,452	59,265	8,099
Net Interest Income	53,326	49,562	106,075	90,037
Provision for Credit Losses	538	2,945	3,760	4,562
Net Interest Income after Provision for Credit Losses	52,788	46,617	102,315	85,475
Other Income:				
Service Charges on Deposit Accounts	2,413	2,086	4,694	3,891
Loss on Sales of Securities	(61)	(8)	(62)	(39)
Gain on Sales of Loans	494	186	1,105	251
Other Income	9,112	4,757	14,609	8,814
Total Other Income	11,958	7,021	20,346	12,917
Other Expenses:				
Salaries and Employee Benefits	22,339	21,408	45,515	41,111
Occupancy and Equipment Expense	5,112	4,914	10,113	9,327
Other Expenses	12,251	10,075	22,753	19,679
Total Other Expenses	39,702	36,397	78,381	70,117
Income Before Income Taxes	25,044	17,241	44,280	28,275
Provision for Income Taxes	5,305	3,484	9,516	5,787
Net Income	19,739	13,757	34,764	22,488
Preferred Stock Dividends	1,350	-	2,700	-
Net Income Available to Common Shareholders	$ 18,389	$ 13,757	$ 32,064	$ 22,488
Earnings Per Common Share:				
Basic	$ 0.73	$ 0.61	$ 1.28	$ 1.03
Diluted	$ 0.73	$ 0.61	$ 1.27	$ 1.03

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Consolidated Net Income	$ 19,739	$ 13,757	$ 34,764	$ 22,488
Other Comprehensive Income (Loss):				
Unrealized Loss on Investment Securities	(15,612)	(30,201)	(7,611)	(79,186)
Unrealized Gain (Loss) on Share of Other Equity Investments	(1,309)	1,104	(1,443)	1,079
Reclassification Adjustment for Losses on Sale of AFS Investment Securities Included in Net Income	61	8	62	39
Income Tax Effect	3,562	6,109	1,900	16,511
Other Comprehensive Loss	(13,298)	(22,980)	(7,092)	(61,557)
Consolidated Comprehensive Income (Loss)	$ 6,441	$ (9,223)	$ 27,672	$ (39,069)

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 JUNE 30, 2023 AND 2022
(Dollars in thousands, except per share data)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances at March 31, 2022	$ -	$ 22,565	$ 345,858	$ 128,168	$ (39,754)	$ 456,837
Comprehensive Income:						
Net Income	-	-	-	13,757	-	13,757
Other Comprehensive Loss	-	-	-	-	(22,980)	(22,980)
Cash Dividends Declared on Common Stock, $0.12 Per Share	-	-	-	(2,693)	-	(2,693)
Stock Issuance	-	9	242	-	-	251
Stock Based Compensation Cost	-	5	282	-	-	287
Balances at June 30, 2022	$ -	$ 22,579	$ 346,382	$ 139,232	$ (62,734)	$ 445,459
Balances at March 31, 2023	$ 71,930	$ 25,320	$ 394,677	$ 173,761	$ (67,998)	$ 597,690
Comprehensive Income:						
Net Income	-	-	-	19,739	-	19,739
Other Comprehensive Loss	-	-	-	-	(13,298)	(13,298)
Cash Dividends Declared on Preferred Stock, $18.75 Per Share	-	-	-	(1,350)	-	(1,350)
Cash Dividends Declared on Common Stock, $0.12 Per Share	-	-	-	(3,035)	-	(3,035)
Stock Based Compensation Cost	-	24	1,198	-	-	1,222
Balances at June 30, 2023	$ 71,930	$ 25,344	$ 395,875	$ 189,115	$ (81,296)	$ 600,968

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

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022
(Dollars in thousands, except per share data)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances at December 31, 2021	$ -	$ 20,400	$ 292,271	$ 121,874	$ (1,177)	$ 433,368
Comprehensive Income:						
Net Income	-	-	-	22,488	-	22,488
Other Comprehensive Loss	-	-	-	-	(61,557)	(61,557)
Cash Dividends Declared on Common Stock, $0.24 Per Share	-	-	-	(5,130)	-	(5,130)
Stock Issuance	-	2,079	53,167	-	-	55,246
Stock Based Compensation Cost	-	100	944	-	-	1,044
Balances at June 30, 2022	$ -	$ 22,579	$ 346,382	$ 139,232	$ (62,734)	$ 445,459
Balances at December 31, 2022	$ 71,930	$ 25,110	$ 393,690	$ 163,955	$ (74,204)	$ 580,481
Cumulative Effect of Change in Accounting Principle for Credit Losses	-	-	-	(827)	-	(827)
Comprehensive Income:						
Net Income	-	-	-	34,764	-	34,764
Other Comprehensive Loss	-	-	-	-	(7,092)	(7,092)
Cash Dividends Declared on Preferred Stock, $37.50 Per Share	-	-	-	(2,700)	-	(2,700)
Cash Dividends Declared on Common Stock, $0.24 Per Share	-	-	-	(6,077)	-	(6,077)
Stock Based Compensation Cost	-	234	2,185	-	-	2,419
Balances at June 30, 2023	$ 71,930	$ 25,344	$ 395,875	$ 189,115	$ (81,296)	$ 600,968

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

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

	For the Six Months Ended June 30,	
	2023	2022
Cash Flows From Operating Activities:		
Consolidated Net Income	$ 34,764	$ 22,488
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	3,760	4,562
Depreciation and Amortization	2,381	2,319
Net Accretion of Purchase Accounting Adjustments	(4,208)	(2,770)
Stock Based Compensation Cost	2,419	1,044
Net Amortization of Securities	2,200	3,191
Loss on Sales of Securities	62	39
Gain on Sale of Loans	(288)	(251)
Income on Other Equity Securities	(3,552)	(72)
Gain on Sale of Other Real Estate Owned, Net of Writedowns	(223)	(18)
Increase in Cash Value of Life Insurance	(1,071)	(844)
Deferred Income Tax Expense (Benefit)	1,762	(772)
Changes in Assets and Liabilities:		
(Increase) Decrease in Accrued Interest Receivable	(1,195)	58
(Increase) Decrease in Other Assets	(552)	4,470
Increase (Decrease) in Accrued Interest Payable	5,574	(865)
Increase in Other Liabilities	6,908	4,920
Net Cash Provided by Operating Activities	48,741	37,499
Cash Flows From Investing Activities:		
Purchases of Securities Available for Sale	(36,215)	(77,278)
Proceeds from Maturities / Sales of Securities Available for Sale	10,445	29,597
Proceeds from Paydowns of Securities Available for Sale	28,936	52,059
Net Cash Received in Acquisition	-	163,460
Purchases of Other Equity Securities	(12,873)	(8,982)
Redemption of Other Equity Securities	17,625	2,527
Purchase of Life Insurance	(2,273)	(15,000)
Net Increase in Loans	(286,502)	(582,892)
Net Purchases of Premises and Equipment	(2,241)	(6,412)
Loss on Disposal of Premises and Equipment	-	717
Proceeds from Sales of Other Real Estate	1,126	609
Net (Increase) Decrease in Federal Funds Sold	(158,244)	216,227
Net Cash Used in Investing Activities	(440,216)	(225,368)

(CONTINUED)

	For the Six Months Ended June 30,	
	2023	2022
Cash Flows From Financing Activities:		
Net Increase in Deposits	194,098	103,645
Net Increase (Decrease) in Securities Sold Under Agreements to Repurchase	3,022	(644)
Net Decrease in Federal Funds Purchased	(14,057)	-
Net Advances (Repayments) on Federal Home Loan Bank Borrowings	(47,938)	171,114
Net Proceeds on Bank Term Funding Program	300,000	-
Issuance of Short Term Borrowings	-	5,000
Repayment of Subordinated Debt	(5,700)	-
Gain on Extinguishment of Debt	(941)	-
Proceeds from Issuance of Common Stock	-	203
Payment of Dividends on Preferred Stock	(2,700)	-
Payment of Dividends on Common Stock	(6,077)	(5,130)
Net Cash Provided by Financing Activities	419,707	274,188
Net Increase in Cash and Cash Equivalents	28,232	86,319
Cash and Cash Equivalents at Beginning of Period	152,740	68,375
Cash and Cash Equivalents at End of Period	$ 180,972	$ 154,694
Supplemental Disclosures for Cash Flow Information:		
Cash Payments for:		
Interest on Deposits	$ 41,079	$ 5,508
Interest on Borrowings	$ 12,612	$ 3,237
Income Tax Payments	$ 4,291	$ 2,127
Supplemental Schedule for Noncash Investing and Financing Activities:		
Change in the Unrealized Loss on Securities Available for Sale	$ (7,549)	$ (79,147)
Change in the Unrealized Gain (Loss) on Equity Securities	$ (1,443)	$ 1,079
Change in Deferred Tax Effect on the Unrealized Loss on Securities Available for Sale	$ 1,900	$ 16,511
Transfer of Loans to Other Real Estate	$ 1,118	$ 154
Acquisitions:		
Fair Value of Tangible Assets Acquired	$ -	$ 531,658
Other Intangible Assets Acquired	-	3,875
Liabilities Assumed	-	509,438
Net Identifiable Assets Acquired Over Liabilities Assumed	$ -	$ 26,095

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

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

Note 1 – Basis of Presentation –

The unaudited consolidated financial statements include the accounts of Business First Bancshares, Inc. (the "Company") and its wholly-owned subsidiary, b1BANK (the "Bank"), and the Bank's wholly-owned subsidiaries, Business First Insurance, LLC and Smith Shellnut Wilson, LLC. The Bank operates out of full-service banking centers and loan production offices in markets across Louisiana, the Dallas/Fort Worth metroplex and Houston, Texas. As a state bank, it is subject to regulation by the Office of Financial Institutions ("OFI"), State of Louisiana, and the Federal Deposit Insurance Corporation ("FDIC") 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, 2022.

Preparation of financial statements in conformity with U.S. 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. Critical accounting estimates that are particularly susceptible to significant change for the Company include the determination of the acquired loans and allowance for credit losses and purchase accounting adjustments (other than loans). Other estimates include goodwill, fair value of financial instruments, investment securities and the assessment of income taxes. Management does not anticipate any material changes to estimates in the near term. Factors that may cause sensitivity to the aforementioned estimates include but are not limited to: external market factors such as market interest rates and employment rates, changes to operating policies and procedures, economic conditions in the Company's markets, and changes in applicable banking regulations. Actual results may ultimately differ from estimates.

Accounting Standards Adopted in Current Period

Effective January 1, 2023, the Company adopted ASU 2016-13, *Financial Instrument – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* related to the impairment of financial instruments. This guidance, commonly referred to as Current Expected Credit Loss ("CECL"), changes impairment recognition to a model that is based on expected losses rather than incurred losses. The allowance for credit losses is established for current expected credit losses on the Company's loan portfolio, including unfunded credit commitments. Prior to January 1, 2023, the allowance for credit losses was established based on an incurred loss model. Upon the adoption of CECL, certain loan classification and segmentation categories were changed to align with the requirements of the standard and more effectively model the CECL estimate. The updated CECL segmentation is reflected in the disclosures beginning January 1, 2023, and prior period classifications have been adjusted to reflect CECL segmentations. Results from periods prior to January 1, 2023, are presented using the previously applicable GAAP.

Upon adoption of the guidance on January 1, 2023, the Company recognized an $827,000 reduction to retained earnings, after recording the related deferred tax asset adjustment at our effective tax rate. The Company and b1BANK are subject to various regulatory capital requirements. Although the federal banking regulatory agencies have provided relief for an initial capital decrease at adoption of the CECL standard, the Company does not intend to opt into the relief as the impact of adoption was not significant to the Company's regulatory capital.

The adoption of this guidance did not have a material impact on the Company's available-for-sale securities as most of this portfolio consists of U.S. treasury and agency securities as well as highly rated residential agency mortgage-backed, corporate, and municipal securities. However, any subsequent estimated credit losses are required to be recognized through an allowance for credit losses associated with the applicable securities.

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

The Company also adopted ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures* on January 1, 2023. The standard modifies the criteria for identification of troubled debt restructurings as well as enhancing disclosure requirements. Additionally, the guidance requires vintage table disclosures and presentation of gross write-offs during the current period by year of origination for financing receivables within scope of the standard. The implementation of the standard did not have a material impact of the identification of troubled debt restructurings and the vintage and charge-off disclosures have been presented in the footnotes below.

Allowance for Credit Losses

The Company calculates its allowance for credit losses utilizing a CECL methodology. CECL requires management's estimate of credit losses over the full remaining expected life of loans and other financial instruments and for the Company, CECL applies to loans, unfunded commitments, and available for sale securities. The allowance for credit losses is increased through provisions charged to earnings and reduced by net charge-offs, inclusive of recoveries. Management evaluates the appropriateness of the allowance for credit losses on a quarterly basis. The allowance considers expected losses for the remaining lives of the applicable assets. Forecasted economic scenarios are considered over a reasonable and supportable forecast period, currently one year, which incorporates Company and peer historical losses. After the forecast period, the Company reverts to long-term historical loss experience on a straight-line basis over a one-year period, adjusted for the composition of the current loan portfolio, to estimate losses over the remaining lives of the portfolio. The economic scenarios are updated at least quarterly and are designed to provide estimates that take into consideration the customer base of our loan portfolio. Loss estimates also consider factors affecting credit losses not reflected in the model, including trends in the portfolio, credit management and underwriting practices and economic conditions affecting our operating footprint.

The allowance recorded for loan losses utilizes forward-looking expected loss models to consider a variety of factors affecting lifetime credit losses. These factors include loan and borrower characteristics, such as internal risk ratings, delinquency status, collateral type and available valuation information, and the remaining term of the loan, adjusted for expected prepayments. Where loans do not exhibit similar risk characteristics, an individual analysis is performed to consider expected credit losses. For each loan portfolio, model estimates are adjusted as necessary to consider any relevant changes in portfolio composition, lending policies, underwriting standards, risk management practices or economic conditions that would affect the accuracy of the model. The results of the analysis are evaluated quarterly to confirm the estimates are appropriate for each loan portfolio. Expected loan loss estimates also include consideration of expected cash recoveries on loans previously charged-off, or expected recoveries on collateral dependent loans where recovery is expected through sale of the collateral. The allowance recorded for individually evaluated loans is based on an analysis utilizing expected cash flows discounted using the original effective interest rate, the observable market price of the loan, or when repayment is expected through the sale of collateral, the fair value of the collateral, less selling costs, for collateral-dependent loans.

The Company has elected to exclude accrued interest receivable from the amortized cost basis on its loan portfolio. The Company has also elected to not measure an allowance for credit losses on accrued interest for loans held-for-investment based on its policy to write off uncollectible interest in a timely manner, which occurs when a loan is placed on nonaccrual status. Generally, such elections are made no later than 90 days after a loan has become past due, although certain loans accrue interest after 90 days based on management's evaluation of the borrower's ability to continue making contractual payments. Such write-offs are recognized as a reduction of interest income. Accrued interest receivable for the loan portfolio is included within accrued interest receivable in the consolidated balance sheets.

Purchased Loans

Beginning January 1, 2023, when a loan portfolio is purchased, an allowance is established for those loans considered purchased with more-than-insignificant credit deterioration ("PCD"), and those not considered purchased with more-than-insignificant credit deterioration ("non-PCD"). The allowance established utilizes the same risk factors discussed above for our non-acquired allowance. The allowance established for non-PCD loans is recognized through provision expense upon acquisition, whereas the allowance established for loans considered PCD at acquisition is offset by an increase in the basis of the acquired loans. Any subsequent increases and decreases in the allowance related to acquired loans are recognized through provision expense, with future charge-offs recorded to the allowance.

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

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Company also assesses the credit risk associated with off-balance sheet loan commitments and letters of credit. The liability for off-balance sheet credit exposure related to loan commitments and other credit guarantees is included in other liabilities. Because business processes and credit risks associated with unfunded credit commitments are essentially the same as for loans, the Company utilizes similar processes to estimate its liability for unfunded credit commitments.

The adoption of this guidance did not have a material impact on the Company's available-for-sale securities as most of this portfolio consists of U.S. treasury and agency securities as well as highly rated residential agency mortgage-backed, corporate and municipal securities. However, any subsequent estimated credit losses are required to be recognized through an allowance for credit losses associated with the applicable securities.

Allowance for Credit Losses on Securities

In conjunction with the adoption of CECL, the Company also evaluates its securities portfolio for credit losses, as the CECL update modifies the debt security credit impairment model to recognize an allowance for estimated credit losses. Similar to the election on the loan portfolio, the Company has elected to exclude accrued interest receivable from the amortized cost basis of its investment portfolio analysis. Based on our assessments, expected credit losses were negligible and therefore, no allowance for credit losses was recorded.

Beginning January 1, 2023, the Company evaluates its available for sale securities portfolio on a quarterly basis for potential credit-related impairment. The Company assesses potential credit impairment by comparing the fair value of a debt security to its amortized cost basis. If the fair value of a debt security is greater than the amortized cost basis, no impairment is recognized. If the fair value is less than the amortized costs basis, the Company reviews the factors to determine if the impairment is credit-related or noncredit-related. For debt securities the Company intends to sell or is more likely than not required to sell, before the recovery of their amortized cost basis, the difference between fair value and amortized cost is impaired and is recognized through earnings. For debt securities the Company does not intend to sell or is not more likely than not required to sell, prior to expected recovery of amortized cost basis, the credit portion of the impairment is recognized through earnings, with a corresponding entry to an allowance for credit losses, and the noncredit portion is recognized through accumulated other comprehensive income.

Accounting Standards Not Yet Adopted

None

Note 2 – **Reclassifications** –

Certain reclassifications may have been made to conform to the classifications adopted for reporting in 2023. These reclassifications have no material effect on previously reported shareholders' equity or net income.

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
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Note 3 – Mergers and Acquisitions –

Texas Citizens Bancorp, Inc.

On March 1, 2022, the Company consummated the merger of Texas Citizens Bancorp, Inc. ("TCBI"), headquartered in Pasadena, Texas, with and into the Company, pursuant to the terms of that certain Agreement and Plan of Reorganization (the "Reorganization Agreement"), dated as of October 20, 2021, by and between the Company and TCBI (the "Merger"). Also on March 1, 2022, TCBI's wholly-owned banking subsidiary, Texas Citizens Bank, National Association, was merged with and into b1BANK. Pursuant to the terms of the Reorganization Agreement, upon consummation of the Merger, the Company issued 2,069,532 shares of its common stock to the former shareholders of TCBI. At February 28, 2022, TCBI reported $534.2 million in total assets, $349.5 million in loans and $477.2 million in deposits.

The following table reflects the consideration paid for TCBI's net assets and the identifiable assets purchased and liabilities assumed at their fair values as of March 1, 2022.

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

Purchase Price:		
Shares Issued to TCBI's Shareholders on March 1, 2022		2,069,532
Closing Stock Price on February 28, 2022	$	26.19
Total Stock Issued	$	54,201
Other Consideration, Including Equity Awards		842
Total Purchase Price	$	55,043
Net Assets Acquired:		
Cash and Cash Equivalents	$	163,460
Securities Available for Sale		370
Loans and Leases Receivable		338,027
Premises and Equipment, Net		2,776
Cash Value of Life Insurance		12,146
Core Deposit Intangible		3,875
Other Assets		14,731
Total Assets		535,385
Deposits		477,277
Borrowings		30,708
Other Liabilities		1,006
Total Liabilities		508,991
Net Assets Acquired		26,394
Goodwill Resulting from Merger	$	28,649

The Company has recorded approximately $171,000 and $5.2 million of acquisition-related costs within merger and conversion-related expenses and salaries and benefits for the six months ended June 30, 2023, and year ended December 31, 2022.

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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.

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 ("CDI"): 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 estimated market rates over the remaining terms of the subordinated debt issuances.

Pro forma tables for TCBI were impractical to include due to the cost versus benefit of including such disclosures.

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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. In addition, nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities and are included in the computation of EPS pursuant to the two-class method.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
	(Dollars in thousands, except per share data)			
Numerator:				
Net Income	$ 19,739	$ 13,757	$ 34,764	$ 22,488
Less: Preferred Stock Dividends	1,350	-	2,700	-
Net Income Available to Common Shares	$ 18,389	$ 13,757	$ 32,064	$ 22,488
Denominator:				
Weighted Average Common Shares Outstanding	25,101,683	22,459,603	25,041,124	21,746,973
Dilutive Effect of Stock Options and RSAs	231,689	196,571	237,021	169,668
Weighted Average Dilutive Common Shares	25,333,372	22,656,174	25,278,145	21,916,641
Basic Earnings Per Common Share From Net Income Available to Common Shares	$ 0.73	$ 0.61	$ 1.28	$ 1.03
Diluted Earnings Per Common Share From Net Income Available to Common Shares	$ 0.73	$ 0.61	$ 1.27	$ 1.03

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Note 5 – Securities –

The amortized cost and fair values of securities available for sale as of June 30, 2023, and December 31, 2022 are summarized as follows:

	June 30, 2023 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Securities	$ 32,731	$ -	$ 2,508	$ 30,223
U.S. Government Agencies	50,253	-	2,821	47,432
Corporate Securities	49,383	-	6,559	42,824
Mortgage-Backed Securities	501,470	38	57,472	444,036
Municipal Securities	346,333	37	33,111	313,259
Total Securities Available for Sale	$ 980,170	$ 75	$ 102,471	$ 877,774

	December 31, 2022 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Securities	$ 32,783	$ -	$ 2,668	$ 30,115
U.S. Government Agencies	50,288	-	2,916	47,372
Corporate Securities	48,475	25	2,496	46,004
Mortgage-Backed Securities	506,671	267	55,213	451,725
Municipal Securities	347,382	11	31,858	315,535
Total Securities Available for Sale	$ 985,599	$ 303	$ 95,151	$ 890,751

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The following tables present a summary of securities with gross unrealized losses and fair values at June 30, 2023 and December 31, 2022, aggregated by investment category and length of time in a continued unrealized loss position.

	June 30, 2023					
	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. Treasury Securities	$ -	$ -	$ 30,223	$ 2,508	$ 30,223	$ 2,508
U.S. Government Agencies	-	-	47,432	2,821	47,432	2,821
Corporate Securities	26,587	3,791	16,237	2,768	42,824	6,559
Mortgage-Backed Securities	41,314	1,597	391,178	55,875	432,492	57,472
Municipal Securities	49,608	3,201	251,202	29,910	300,810	33,111
Total Securities Available for Sale	$ 117,509	$ 8,589	$ 736,272	$ 93,882	$ 853,781	$ 102,471

	December 31, 2022					
	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. Treasury Securities	$ 9,702	$ 374	$ 20,413	$ 2,294	$ 30,115	$ 2,668
U.S. Government Agencies	24,405	595	22,967	2,321	47,372	2,916
Corporate Securities	19,564	1,359	6,385	1,137	25,949	2,496
Mortgage-Backed Securities	115,692	7,473	324,043	47,740	439,735	55,213
Municipal Securities	143,035	10,206	131,944	21,652	274,979	31,858
Total Securities Available for Sale	$ 312,398	$ 20,007	$ 505,752	$ 75,144	$ 818,150	$ 95,151

As of June 30, 2023, no allowance for credit losses was recognized on available for sale securities in an unrealized loss position as management does not believe any of the securities are impaired due to credit quality. This determination is based on the Company's analysis of the underlying risk characteristics including credit ratings, historical loss experience, and other qualitative factors. Further, the securities continue to make principal and interest payments under their contractual terms and management does not have the intent to sell any of the securities and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of amortized cost basis. Therefore, the Company has determined the unrealized losses are due to changes in market interest rates compared to rates when the securities were acquired.

For the period ended December 31, 2022, management evaluated securities for other than temporary impairment. Consideration was given to the extent and length of time the fair value had been below cost, the reasons for the decline in value, and the Company's intent to sell a security or whether it was more likely than not that the Company would be required to sell the security before the recovery of its amortized cost. The Company utilized a process to identify securities that could potentially have a credit impairment that was other than temporary. The process involved 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. The Company determined no other than temporary impairment existed at December 31, 2022.

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The amortized cost and fair values of securities available for sale as of June 30, 2023, 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	$ 28,306	$ 27,764
One to Five Years	235,160	217,886
Over Five to Ten Years	363,195	323,256
Over Ten Years	353,509	308,868
Total Securities Available for Sale	$ 980,170	$ 877,774

At June 30, 2023, the Company had pledged securities with a fair value of $386.3 million against our public deposit and repurchase agreements, and $394.6 million against our Bank Term Funding Program facility.

At June 30, 2023 and December 31, 2022, accrued interest receivable on securities was $4.6 million and $4.4 million, respectively, and included within accrued interest receivable on the consolidated balance sheets.

Note 6 – Loans and the Allowance for Loan Losses –

Loans receivable at June 30, 2023 and December 31, 2022 are summarized as follows:

	June 30, 2023	December 31, 2022
	(Dollars in thousands)	
Real Estate Loans:		
Commercial	$ 2,132,044	$ 2,020,406
Construction	719,080	722,074
Residential	675,462	656,378
Total Real Estate Loans	3,526,586	3,398,858
Commercial	1,309,222	1,153,873
Consumer and Other	62,929	53,445
Total Loans Held for Investment	4,898,737	4,606,176
Less:		
Allowance for Loan Losses	(42,013)	(38,178)
Net Loans	$ 4,856,724	$ 4,567,998

The performing 1-4 family residential, multi-family residential, and commercial real estate, are pledged, under a blanket lien, as collateral securing advances from the FHLB at June 30, 2023 and December 31, 2022. Commercial and agricultural loans are pledged against the Federal Reserve Banks' ("FRB") discount window as of June 30, 2023.

Net deferred loan origination fees were $13.7 million and $13.1 million at June 30, 2023 and December 31, 2022, respectively, and are netted in their respective loan categories above. In addition to loans issued in the normal course of business, the Company considers overdrafts on customer deposit accounts to be loans and reclassifies overdrafts as loans in its consolidated balance sheets. At both June 30, 2023 and December 31, 2022, overdrafts of $2.0 million, have been reclassified to loans.

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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 $736.4 million and $683.3 million at June 30, 2023 and December 31, 2022, respectively. The Company had servicing rights of $1.4 million and $1.7 million recorded as of June 30, 2023, and December 31, 2022, respectively, and is recorded within other assets.

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 credit 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.

Portfolio Segments and Risk Factors

The loan portfolio is disaggregated into portfolio segments and then further disaggregated into classes for certain disclosures. GAAP defines a portfolio segment as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. A class is generally a disaggregation of a portfolio segment. The Company's loan portfolio segments are Real Estate, Commercial, and Consumer and Other. The classes and risk characteristics of each segment are discussed in more detail below. The segmentation and disaggregation of the portfolio is part of the ongoing credit monitoring process.

Real Estate Portfolio Segment

Real Estate: Commercial loans are extensions of credit secured by owner-occupied and non-owner-occupied collateral. Repayment is generally dependent on 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. Real estate commercial loans also include farmland loans that can be, or are, used for agricultural purposes. These loans are usually repaid through permanent financing, cash flow from the borrower’s ongoing operations, development of the property, or sale of the property.

Real Estate: Construction loans include loans to small-to-midsized businesses to construct owner-occupied 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 the Company’s market areas. Risks associated with these loans include fluctuations in the value of real estate, project completion risk and changes in market trends. The Company is 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 the Company funded the loan.

Real Estate: Residential loans include first and second lien 1-4 family mortgage loans, as well as home equity lines of credit, in each case primarily on owner-occupied primary residences. The Company is 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. Real estate residential loans also include multi-family residential loans originated to provide permanent financing for multi-family residential income producing properties. Repayment of these loans primarily relies on successful rental and management of the property.

Commercial Portfolio Segment

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 the Company’s target markets that are underwritten based on 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.

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Consumer and Other Portfolio Segment

Consumer and other 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.

The following table sets forth, as of June 30, 2023, the balance of the allowance for credit losses by loan portfolio segment. The allowance for credit losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments.

Allowance for Credit Losses and Recorded Investment in Loans Receivable

	June 30, 2023					
	(Dollars in thousands)					
	Real Estate: Commercial	Real Estate: Construction	Real Estate: Residential	Commercial	Consumer and Other	Total
Allowance for Loan Losses:						
Beginning Balance	$ 14,702	$ 5,768	$ 5,354	$ 11,721	$ 633	$ 38,178
Adoption of ASU 2016-13	4,823	933	(365)	(2,483)	(248)	2,660
Beginning Balance After Adoption	19,525	6,701	4,989	9,238	385	40,838
Charge-offs	(1,827)	(1)	(42)	(373)	(724)	(2,967)
Recoveries	16	-	7	82	102	207
Provision	449	1,269	293	1,282	642	3,935
Ending Balance	$ 18,163	$ 7,969	$ 5,247	$ 10,229	$ 405	$ 42,013
Reserve for Unfunded Loan Commitments:						
Beginning Balance	$ 220	$ 137	$ 13	$ 229	$ 6	$ 605
Adoption of ASU 2016-13	116	2,113	190	657	121	3,197
Beginning Balance After Adoption	336	2,250	203	886	127	3,802
Provision	(51)	(200)	34	143	(101)	(175)
Ending Balance	$ 285	$ 2,050	$ 237	$ 1,029	$ 26	$ 3,627
Total Allowance for Credit Losses	$ 18,448	$ 10,019	$ 5,484	$ 11,258	$ 431	$ 45,640

Included within the above allowance are loans which management has individually evaluated to determine an allowance for credit losses. The following table summarizes, by segment, the loan balance and specific allowance allocation for those loans which have been individually evaluated.

	June 30, 2023		January 1, 2023	
	Loan Balance	Specific Allocations	Loan Balance	Specific Allocations
	(Dollars in thousands)			
Real Estate Loans:				
Commercial	$ 1,345	$ -	$ 3,008	$ 1,915
Construction	2,348	553	1,424	513
Residential	1,601	-	1,558	3
Total Real Estate Loans	5,294	553	5,990	2,431
Commercial	2,911	1,760	6,096	1,779
Consumer and Other	-	-	-	-
Total	$ 8,205	$ 2,313	$ 12,086	$ 4,210

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The following table sets forth, as of December 31, 2022 (prior to the adoption of ASU 2016-13), the balance of the allowance for credit losses by portfolio segment, disaggregated by impairment methodology, which is then further segregated by amounts evaluated for impairment collectively and individually. The allowance for credit 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.

	December 31, 2022					
	(Dollars in thousands)					
	Real Estate: Commercial	Real Estate: Construction	Real Estate: Residential	Commercial	Consumer and Other	Total
Allowance for Loan Losses:						
Beginning Balance	$ 10,515	$ 4,498	$ 4,565	$ 9,016	$ 518	$ 29,112
Charge-offs	(51)	(16)	(191)	(2,139)	(424)	(2,821)
Recoveries	50	25	20	739	167	1,001
Provision	4,188	1,261	960	4,105	372	10,886
Ending Balance	$ 14,702	$ 5,768	$ 5,354	$ 11,721	$ 633	$ 38,178
Ending Balance:						
Individually Evaluated for Impairment	$ 59	$ 21	$ 99	$ 2,020	$ 15	$ 2,214
Collectively Evaluated for Impairment	$ 14,643	$ 5,747	$ 5,255	$ 9,701	$ 618	$ 35,964
Purchased Credit Impaired	$ -	$ -	$ -	$ -	$ -	$ -
Loans Receivable:						
Ending Balance	$ 2,020,406	$ 722,074	$ 656,378	$ 1,153,873	$ 53,445	$ 4,606,176
Ending Balance:						
Individually Evaluated for Impairment	$ 3,053	$ 992	$ 4,028	$ 6,442	$ 192	$ 14,707
Collectively Evaluated for Impairment	$ 1,989,831	$ 720,129	$ 637,195	$ 1,141,957	$ 52,570	$ 4,541,682
Purchased Credit Impaired	$ 27,522	$ 953	$ 15,155	$ 5,474	$ 683	$ 49,787

Credit Quality Indicators

We utilize a risk grading matrix to assign a risk grade to each of our commercial loans. Loans are graded on a scale of 10 to 80. Individual loan officers review updated financial information for all pass grade loans to reassess the risk grade, generally on at least an annual basis. When a loan has a risk grade of 60, it is still considered a pass grade loan; however, it is considered to be on management's "watch list," and subject to additional and more frequent monitoring by both the loan officer and senior credit and risk personnel. When a loan has a risk grade of 70 or higher, a special assets officer monitors the loan on an on-going basis.

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The following table sets forth the credit quality indicators, disaggregated by loan segment, as of June 30, 2023:

	June 30, 2023						
		Criticized					
	Pass (Risk Grade 10-45)	Special Mention (Risk Grade 50)	Substandard (Risk Grade 60)	Doubtful (Risk Grade 70)	Loss (Risk Grade 80)	Total	Current Period Charge-offs
	(Dollars in thousands)						
Real Estate: Commercial							
Originated in 2023	$ 97,431	$ -	$ -	$ -	$ -	$ 97,431	$ -
Originated in 2022	737,026	1,709	-	-	-	738,735	-
Originated in 2021	454,027	6,098	74	-	-	460,199	357
Originated in 2020	160,247	3,699	11	-	-	163,957	-
Originated in 2019	153,506	9,976	454	948	-	164,884	1,447
Originated Prior to 2019	421,120	6,411	8,742	485	-	436,758	23
Revolving	69,876	-	204	-	-	70,080	-
Revolving Loans Converted to Term	-	-	-	-	-	-	-
Total Real Estate: Commercial	$ 2,093,233	$ 27,893	$ 9,485	$ 1,433	$ -	$ 2,132,044	$ 1,827
Real Estate: Construction							
Originated in 2023	$ 58,661	$ -	$ -	$ -	$ -	$ 58,661	$ -
Originated in 2022	366,332	-	65	-	-	366,397	-
Originated in 2021	142,951	-	997	-	-	143,948	-
Originated in 2020	51,701	32	-	-	-	51,733	-
Originated in 2019	22,193	-	1,760	-	-	23,953	-
Originated Prior to 2019	24,106	573	511	345	-	25,535	1
Revolving	48,853	-	-	-	-	48,853	-
Revolving Loans Converted to Term	-	-	-	-	-	-	-
Total Real Estate: Construction	$ 714,797	$ 605	$ 3,333	$ 345	$ -	$ 719,080	$ 1
Real Estate: Residential							
Originated in 2023	$ 37,466	$ -	$ -	$ -	$ -	$ 37,466	$ -
Originated in 2022	169,873	447	255	17	-	170,592	-
Originated in 2021	110,897	-	715	-	-	111,612	11
Originated in 2020	71,502	385	598	163	-	72,648	1
Originated in 2019	63,027	439	977	126	-	64,569	22
Originated Prior to 2019	109,050	1,176	5,896	373	-	116,495	7
Revolving	101,625	-	434	-	-	102,059	1
Revolving Loans Converted to Term	21	-	-	-	-	21	-
Total Real Estate: Residential	$ 663,461	$ 2,447	$ 8,875	$ 679	$ -	$ 675,462	$ 42
Commercial							
Originated in 2023	$ 163,250	$ 142	$ 10	$ -	$ -	$ 163,402	$ -
Originated in 2022	294,438	380	671	-	-	295,489	97
Originated in 2021	159,627	5,958	836	16	-	166,437	15
Originated in 2020	63,467	4,523	682	46	-	68,718	27
Originated in 2019	39,600	920	1,447	1,669	-	43,636	33
Originated Prior to 2019	65,902	4,443	3,611	378	-	74,334	-
Revolving	492,797	3,720	661	28	-	497,206	201
Revolving Loans Converted to Term	-	-	-	-	-	-	-
Total Commercial	$ 1,279,081	$ 20,086	$ 7,918	$ 2,137	$ -	$ 1,309,222	$ 373
Consumer and Other							
Originated in 2023	$ 6,288	$ -	$ -	$ -	$ -	$ 6,288	$ -
Originated in 2022	9,430	-	18	-	-	9,448	12
Originated in 2021	4,941	-	62	-	-	5,003	20
Originated in 2020	2,512	-	107	-	-	2,619	5
Originated in 2019	2,805	-	66	-	-	2,871	3
Originated Prior to 2019	17,144	2	103	-	-	17,249	58
Revolving	19,329	-	17	-	-	19,346	626
Revolving Loans Converted to Term	105	-	-	-	-	105	-
Total Consumer and Other	$ 62,554	$ 2	$ 373	$ -	$ -	$ 62,929	$ 724
Total Loans	$ 4,813,126	$ 51,033	$ 29,984	$ 4,594	$ -	$ 4,898,737	$ 2,967

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

The following table sets forth the credit quality indicators, disaggregated by loan segment, as of December 31, 2022 (prior to the adoption of ASU 2016-13):

	December 31, 2022				
	Pass (Risk Grade 10-45)	Special Mention (Risk Grade 50)	Substandard (Risk Grade 60)	Doubtful (Risk Grade 70)	Total
	(Dollars in thousands)				
Real Estate Loans:					
Commercial	$ 1,972,611	$ 35,054	$ 10,478	$ 2,263	$ 2,020,406
Construction	716,071	3,496	2,157	350	722,074
Residential	643,763	3,780	7,925	910	656,378
Total Real Estate Loans	3,332,445	42,330	20,560	3,523	3,398,858
Commercial	1,137,555	6,646	6,960	2,712	1,153,873
Consumer and Other	53,041	-	404	-	53,445
Total	$ 4,523,041	$ 48,976	$ 27,924	$ 6,235	$ 4,606,176

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.

As of June 30, 2023, and December 31, 2022, loan balances outstanding more than 90 days past due and still accruing interest amounted to $468,000 and $335,000, respectively. As of June 30, 2023, and December 31, 2022, loan balances outstanding on nonaccrual status amounted to $17.0 million and $11.1 million, respectively. The Bank considers all loans more than 90 days past due as nonperforming loans.

The following tables provide an analysis of the aging of loans and leases as of June 30, 2023, and December 31, 2022. For the year ended December 31, 2022, past due and nonaccrual loan amounts exclude acquired impaired loans, even if contractually past due or if the Company does not expect to receive payment in full, as prior to the adoption of CECL, the Company accreted interest income over the expected life of the loans. With the adoption of CECL and deconstruction of acquired impaired accounting, those amounts are no longer excluded for the period ended June 30, 2023. All loans greater than 90 days past due are generally placed on nonaccrual status.

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

Aged Analysis of Past Due Loans Receivable

	June 30, 2023 (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:							
Commercial	$ 1,742	$ 78	$ 2,538	$ 4,358	$ 2,127,686	$ 2,132,044	$ -
Construction	2,364	206	2,145	4,715	714,365	719,080	138
Residential	1,938	1,192	3,050	6,180	669,282	675,462	43
Total Real Estate Loans	6,044	1,476	7,733	15,253	3,511,333	3,526,586	181
Commercial	2,148	29	3,989	6,166	1,303,056	1,309,222	263
Consumer and Other	258	27	213	498	62,431	62,929	24
Total	$ 8,450	$ 1,532	$ 11,935	$ 21,917	$ 4,876,820	$ 4,898,737	$ 468

	December 31, 2022 (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:							
Commercial	$ 1,491	$ 210	$ 1,681	$ 3,382	$ 2,017,024	$ 2,020,406	$ 98
Construction	320	41	638	999	721,075	722,074	-
Residential	1,590	423	1,781	3,794	652,584	656,378	-
Total Real Estate Loans	3,401	674	4,100	8,175	3,390,683	3,398,858	98
Commercial	1,183	1,934	2,186	5,303	1,148,570	1,153,873	222
Consumer and Other	295	28	182	505	52,940	53,445	15
Total	$ 4,879	$ 2,636	$ 6,468	$ 13,983	$ 4,592,193	$ 4,606,176	$ 335

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

Upon adoption of ASU 2016-13, the Company eliminated the pooling of purchased impaired credit loans. As a result, $7.0 million of purchased credit deterioration loans were recognized as non-accrual loans as of January 1, 2023. The following table presents non-accrual loans by segment as of June 30, 2023, January 1, 2023, and December 31, 2022, respectively.

	June 30, 2023	January 1, 2023	December 31, 2022
		(Dollars in thousands)	
Real Estate Loans:			
Commercial	$ 3,081	$ 5,847	$ 2,644
Construction	2,423	2,421	992
Residential	7,034	6,518	4,080
Total Real Estate Loans	12,538	14,786	7,716
Commercial	4,235	3,045	3,150
Consumer and Other	233	257	188
Total	$ 17,006	$ 18,088	$ 11,054

Accrued interest receivable of $4.7 million and $5.4 million was outstanding as of June 30, 2023, and December 31, 2022, respectively, for all loan deferrals, primarily attributable to the COVID-19 pandemic and, to a much lesser extent, hurricanes which occurred in 2020 and 2021. These loans are no longer within their deferral periods. The accrued interest on the loans is due at their maturity.

At June 30, 2023 and December 31, 2022, accrued interest receivable on loans was $22.2 million and $21.2 million, respectively, and included within accrued interest receivable on the consolidated balance sheets.

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

Note 7 – **Long Term Debt** –

On March 1, 2022, the Company assumed, in connection with the TCBI acquisition, three tranches of subordinated debt with an aggregate principal balance outstanding of $26.4 million. One tranche in the amount of $10.0 million bears interest at a fixed rate of 6.25% until April 11, 2023, at which point the notes become redeemable at the Company's option, then will reset to a floating interest rate based on a benchmark rate plus 350 basis points, adjusting quarterly, until maturity on April 11, 2028. Another tranche in the amount of $7.5 million bears a fixed rate 6.38% until December 13, 2023, at which point the notes become redeemable at the Company's option, then will reset to a floating interest rate based on a benchmark rate plus 350 basis points, adjusting quarterly, until maturity on December 13, 2028. The third tranche in the amount of $8.9 million bears an adjustable interest rate plus 595 basis points, based on a benchmark rate, until maturity on March 24, 2027. The $8.9 million tranche was called on May 1, 2023 by the Company, of which $5.7 million has been extinguished. The Company recognized a $941,000 gain on the extinguishment of this debt during the second quarter of 2023. These notes carry an aggregate $1.7 million fair value adjustment as of June 30, 2023.

Note 8 – **Bank Term Funding Program ("BTFP")** –

On March 12, 2023, the Federal Reserve Board developed the BTFP, which offers loans to banks with a term of up to one year. The loans are secured by pledging the banks' U.S. treasuries, agency securities, agency mortgage-backed securities, and any other qualifying assets. These pledged securities will be valued at par for collateral purposes. The Bank participated in the BTFP and had outstanding debt of $300.0 million and pledged securities totaling a fair value of $394.6 million at June 30, 2023. The securities pledged had a collateral value of $422.6 million.

Note 9 – **Federal Home Loan Bank ("FHLB") Borrowings** –

The Company had outstanding advances from the FHLB of $362.2 million and $410.1 million as of June 30, 2023, and December 31, 2022, respectively, consisting of:

One fixed rate loan with an original principal balance of $60.0 million. The loan was made in 2021 and the balance at June 30, 2023 and December 31, 2022 was $41.3 million and $47.2 million, respectively, with interest at 0.89%. Principal and interest payments are due monthly and the loan matures in November 2026.

One short term, overnight, fixed rate loan of $120.0 million at June 30, 2023, with interest at 5.37%. Principal and interest was due, paid and renewed, at maturity in July 2023.

On short term, overnight, fixed rate loan of $25.0 million at June 30, 2023, with interest at 5.50%. Principal and interest was due, and paid, at maturity in July 2023.

One fixed rate loan of $875,000 at both June 30, 2023, and December 31, 2022, that was acquired during the TCBI acquisition, with interest at 4.88% paid monthly. Principal is due at maturity in April 2025.

One fixed rate loan of $100.0 million at both June 30, 2023, and December 31, 2022, with interest at 3.53% paid monthly. Principal is due at maturity in October 2027. This advance has put options beginning in October 2023.

One fixed rate loan of $25.0 million at June 30, 2023, with interest at 4.89% paid monthly. Principal is due at maturity in July 2025.

One fixed rate loan of $25.0 million at June 30, 2023, with interest at 4.65% paid monthly. Principal is due at maturity in January 2026.

One fixed rate loan of $25.0 million at June 30, 2023, with interest at 4.56% paid monthly. Principal is due at maturity in July 2026.

One short term, seven-day, fixed rate loan of $262.0 million at December 31, 2022, with interest at 4.55%. Principal and interest was due, paid and renewed, at maturity in January 2023. This loan was rolled into the $230.0 million short term, overnight, fixed rate loan outstanding at March 31, 2023, which was paid off during the second quarter of 2023.

The Company had an additional $1.4 billion remaining on the FHLB line availability at June 30, 2023.

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

Note 10 – 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 $2.8 million and $2.2 million for the six months ended June 30, 2023, and 2022, respectively. At June 30, 2023, the Company had a weighted average lease term of 5.7 years and a weighted average discount rate of 2.66%.

Future minimum lease payments under these leases are as follows:

	(Dollars in thousands)
July 1, 2023 through June 30, 2024	$ 2,059
July 1, 2024 through June 30, 2025	3,761
July 1, 2025 through June 30, 2026	2,735
July 1, 2026 through June 30, 2027	2,182
July 1, 2027 through June 30, 2028	2,066
July 1, 2028 and Thereafter	4,297
Total Future Minimum Lease Payments	17,100
Less Imputed Interest	(1,302)
Present Value of Lease Liabilities	$ 15,798

Note 11 – 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 $1.3 billion and $1.3 billion, and standby and commercial letters of credit of approximately $45.1 million and $45.6 million at June 30, 2023 and December 31, 2022, respectively. As discussed in Note 6, we have a reserve for unfunded loan commitments of $3.6 million and $605,000 at June 30, 2023 and December 31, 2022, respectively.

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
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – **Preferred Stock** –

On September 1, 2022, the Company entered into a securities purchase agreement with certain investors pursuant to which the Company offered and sold shares of its 7.50% fixed-to-floating rate non-cumulative perpetual preferred stock, with no par value, for an aggregate purchase price of $72.0 million. Holders of the preferred stock will be entitled to receive, if, when, and as declared by the Company's board of directors, non-cumulative cash dividends at a rate of 7.50% per share for the first five years following issuance and thereafter at a variable rate equal to the then current 3-month secured overnight financing rate ("SOFR"), reset quarterly, plus 470 basis points. The preferred stock has a perpetual term and may not be redeemed, except under certain circumstances, under the first five years of issuance. The preferred stock is non-convertible and dividends equivalent to $37.50 per share and $18.75 per share were paid during the six months ended June 30, 2023, and the year ended December 31, 2022, respectively.

Note 13 – **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 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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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following tables present the balance of assets and liabilities measured on a recurring basis as of June 30, 2023, and December 31, 2022. The Company did not record any liabilities at fair value for which measurement of the fair value was made on a recurring basis. The Company transferred $23.4 million of securities from Level 3 to Level 2 fair value measurement designation for the quarter ended June 30, 2023. Prior to 2023, the securities were not valued using observable market data.

	Fair Value	Level 1	Level 2	Level 3
		(Dollars in thousands)		
June 30, 2023				
Available for Sale:				
U.S. Treasury Securities	$ 30,223	$ -	$ 30,223	$ -
U.S. Government Agency Securities	47,432	-	47,432	-
Corporate Securities	42,824	-	42,824	-
Mortgage-Backed Securities	444,036	-	444,036	-
Municipal Securities	313,259	-	313,259	-
Loans Held for Sale	435	-	435	-
Total	$ 878,209	$ -	$ 878,209	$ -
December 31, 2022				
Available for Sale:				
U.S. Treasury Securities	$ 30,115	$ -	$ 30,115	$ -
U.S. Government Agency Securities	47,372	-	47,372	-
Corporate Securities	46,004	-	27,004	19,000
Mortgage-Backed Securities	451,725	-	451,725	-
Municipal Securities	315,535	-	280,767	34,768
Loans Held for Sale	304	-	304	-
Total	$ 891,055	$ -	$ 837,287	$ 53,768

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
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The fair value of the impaired loans is measured at the fair value of the collateral for collateral-dependent loans. Impaired loans are Level 3 assets measured using appraisals from external parties of the collateral less any prior liens and adjusted for estimated selling costs. Adjustments may be made by management based on a customized internally developed discounting matrix. Repossessed assets are initially recorded at fair value less estimated cost to sell, which is generally 10%. 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 3.

	Fair Value	Level 1	Level 2	Level 3
		(Dollars in thousands)		
June 30, 2023				
Assets:				
Impaired Loans	$ 7,733	$ -	$ -	$ 7,733
Servicing Rights	2,303	-	2,303	-
Other Nonperforming Assets	1,616	-	-	1,616
Total	$ 11,652	$ -	$ 2,303	$ 9,349
December 31, 2022				
Assets:				
Impaired Loans	$ 16,816	$ -	$ -	$ 16,816
Servicing Rights	2,327	-	2,327	-
Other Nonperforming Assets	1,434	-	-	1,434
Total	$ 20,577	$ -	$ 2,327	$ 18,250

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 GAAP, 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 credit 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.

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

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

The estimated approximate fair values of the Bank's financial instruments as of June 30, 2023, and December 31, 2022 are as follows:

	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
			(Dollars in thousands)		
June 30, 2023					
Financial Assets:					
Cash and Short-Term Investments	$ 354,822	$ 354,822	$ 354,822	$ -	$ -
Securities	877,774	877,774	-	877,774	-
Loans Held for Sale	435	435	-	435	-
Loans - Net	4,856,724	4,725,441	-	-	4,725,441
Servicing Rights	1,437	2,303	-	2,303	-
Cash Value of BOLI	95,302	95,302	-	95,302	-
Other Equity Securities	34,824	34,824	-	-	34,824
Total	$ 6,221,318	$ 6,090,901	$ 354,822	$ 975,814	$ 4,760,265
Financial Liabilities:					
Deposits	$ 5,014,443	$ 5,005,851	$ -	$ -	$ 5,005,851
Borrowings	794,223	764,387	-	764,387	-
Total	$ 5,808,666	$ 5,770,238	$ -	$ 764,387	$ 5,005,851

	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
			(Dollars in thousands)		
December 31, 2022					
Financial Assets:					
Cash and Short-Term Investments	$ 168,346	$ 168,346	$ 168,346	$ -	$ -
Securities	890,751	890,751	-	836,983	53,768
Loans Held for Sale	304	304	-	304	-
Loans - Net	4,567,998	4,443,577	-	-	4,443,577
Servicing Rights	1,712	2,327	-	2,327	-
Cash Value of BOLI	91,958	91,958	-	91,958	-
Other Equity Securities	37,467	37,467	-	-	37,467
Total	$ 5,758,536	$ 5,634,730	$ 168,346	$ 931,572	$ 4,534,812
Financial Liabilities:					
Deposits	$ 4,820,345	$ 4,810,263	$ -	$ -	$ 4,810,263
Borrowings	560,123	544,564	-	544,564	-
Total	$ 5,380,468	$ 5,354,827	$ -	$ 544,564	$ 4,810,263

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
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Note 14 – Subsequent Events –

In April 2023, the Company entered into a Branch Purchase and Assumption Agreement ("Purchase Agreement") with Merchants and Farmers Bank & Trust Company in Leesville, Louisiana, to sell its Leesville, Louisiana branch location. The Company will retain the loan accounts held and relocate them to other nearby branches. As of June 30, 2023, total deposits were $22.5 million and were included with consolidated deposits on the balance sheet. A deposit premium per the Purchase Agreement is 7.00% of total deposits and accrued interest. The sale is expected to take place as of the close of business on August 31, 2023.

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:

- risks related to the integration of any other acquired businesses, including exposure to potential asset quality and credit quality risks and unknown or contingent liabilities, risks related to entering a new geographic market, the time and costs associated with integrating systems, technology platforms, procedures and personnel, the ability to retain key employees and maintain relationships with significant customers, the need for additional capital to finance such transactions, and possible failures in realizing the anticipated benefits from acquisitions;
- changes in the strength of the United States ("U.S.") economy in general and the local economy in our local market areas adversely affecting our customers and their ability to transact profitable business with us, including the ability of our borrowers to repay their loans according to their terms or a change in the value of the related collateral;
- economic risks posed by our geographic concentration in Louisiana, the Dallas/Fort Worth metroplex and Houston;
- 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 and emerging non-bank competitors;
- 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, 2022, filed with the SEC.

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, 2022 to June 30, 2023, and its results of operations for the three and six months ended June 30, 2023. 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, 2022, 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-midsized 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, the Dallas/Fort Worth metroplex, and Houston. We currently operate out of banking centers and loan production offices across Louisiana and Texas. As of June 30, 2023, we had total assets of $6.5 billion, total loans of $4.9 billion, total deposits of $5.0 billion, and total shareholders' equity of $601.0 million.

As a financial holding company operating through one reportable operating 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

Acquisition of Texas Citizens Bancorp, Inc. ("TCBI")

On October 20, 2021, we entered into a definitive agreement to acquire TCBI, the parent bank holding company for Texas Citizens Bank, National Association, headquartered in Pasadena, Texas. The acquisition was consummated on March 1, 2022. At February 28, 2022, TCBI reported $534.2 million in total assets, $349.5 million in loans and $477.2 million in total deposits.

Preferred Stock Issuance

On September 1, 2022, we entered into a securities purchase agreement with certain investors pursuant to which we offered and sold shares of our 7.50% fixed-to-floating rate non-cumulative perpetual preferred stock, with no par value, for an aggregate purchase price of $72.0 million. The preferred stock was structured to qualify as additional Tier 1 capital under applicable regulatory capital guidelines. Holders of the preferred stock will be entitled to receive, if, when, and as declared by our board of directors (the "Board"), non-cumulative cash dividends at a rate of 7.50% for the first five years following issuance and thereafter at a variable rate equal to the then current 3-month secured overnight financing rate ("SOFR"), reset quarterly, plus 470 basis points. The preferred stock has a perpetual term and may not be redeemed, except under certain circumstances, under the first five years of issuance.

Public Offering

On October 12, 2022, we entered into an underwriting agreement with Stephens, Inc., a representative of several underwriters, to issue and sell 2,500,000 shares of our common stock, $1.00 par value per share, in an underwritten public offering and a public offering price of $20.00 per share. After deducting underwriting discounts, commissions and offering expenses, the net proceeds of the offering was $47.2 million.

Bank Term Funding Program ("BTFP")

On March 12, 2023, the Federal Reserve developed the BTFP, which offers loans to banks with a term of up to one year. The loans are secured by pledging the banks' U.S. treasuries, agency securities, agency mortgage-backed securities, and other qualifying assets. These pledged securities are valued at par for collateral purposes. The Bank participated in the BTFP and pledged securities with a remaining par value of $428.9 million as of June 30, 2023. The Bank had outstanding BTFP debt of $300.0 million at June 30, 2023.

Federal Reserve Bank's Discount Window

On April 11, 2023, the Bank opened two new lines of credit for additional contingent liquidity, totaling $991.3 million as of June 30, 2023, through the Federal Reserve discount window. The Bank has not yet drawn on either of the lines of credit as of the date of this report.

Changes in Critical Accounting Policies and Critical Accounting Estimates

Effective January 1, 2023, the Company adopted ASU 2016-13, *Financial Instrument – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* related to the impairment of financial instruments. This guidance, commonly referred to as Current Expected Credit Loss ("CECL"), changes impairment recognition to a model that is based on expected losses rather than incurred losses. The allowance for credit losses is considered a critical accounting policy and a critical accounting estimate. The allowance for credit losses is established for current expected credit losses on the Company's loan portfolio, including unfunded credit commitments. Prior to January 1, 2023, the allowance for credit losses was established based on an incurred loss model. Upon the adoption of CECL, certain loan classification and segmentation categories were changed to align with the requirements of the standard and more effectively model the CECL estimate. The updated CECL segmentation is reflected in the disclosures beginning January 1, 2023, and prior period classifications have been adjusted to reflect CECL segmentations. Results from periods prior to January 1, 2023, are presented using the previously applicable GAAP. For more information see Note 1 and Note 6 to the consolidated financial statements contained in this report.

Financial Highlights

The financial highlights as of and for the three and six months ended June 30, 2023, include:

- **Total assets** of $6.5 billion, a $464.2 million, or 7.7%, increase from December 31, 2022.
- **Total loans held for investment** of $4.9 billion, a $292.6 million, or 6.4%, increase from December 31, 2022.
- **Total deposits** of $5.0 billion, a $194.1 million, or 4.0%, decrease from December 31, 2022.
- **Net income available to common shareholders** of $32.1 million for the six months ended June 30, 2023, a $9.6 million, or 42.6%, increase from the six months ended June 30, 2022.
- **Net interest income** of $106.1 million for the six months ended June 30, 2023, an increase of $16.0 million, or 17.8%, from the six months ended June 30, 2022.
- **Allowance for loan losses** of 0.86% of total loans held for investment, compared to 0.83% as of December 31, 2022, and a ratio of nonperforming loans to total loans held for investment of 0.36%, compared to 0.25% as of December 31, 2022.
- **Earnings per common share** for the first six months of 2023 of $1.28 per basic common share and $1.27 per diluted common share, compared to $1.03 per basic and diluted common share for the first six months of 2022.
- **Return on average assets** of 1.04% over the first six months of 2023, compared to 0.88% for the first six months of 2022.
- **Return on average equity** of 12.39% over the first six months of 2023, compared to 10.12% for the first six months of 2022.
- **Capital ratios** for Tier 1 Leverage, Common Equity Tier 1, Tier 1 Risk-based and Total Risk-based Capital of 9.35%, 8.71%, 10.03% and 12.49%, respectively, compared to 9.49%, 8.68%, 10.07% and 12.75% at December 31, 2022.
- **Book value per common share** of $20.87, an increase of 3.1% from $20.25 at December 31, 2022.

Results of Operations for the Three and Six Months Ended June 30, 2023, and 2022

Performance Summary

For the three months ended June 30, 2023, net income available to common shareholders was $18.4 million, or $0.73 per basic and diluted common share, compared to net income of $13.8 million, or $0.61 per basic and diluted common share, for the three months ended June 30, 2022. Return on average assets, on an annualized basis, increased to 1.18% for the three months ended June 30, 2023, from 1.03% for the three months ended June 30, 2022. Return on average equity, on an annualized basis, increased to 13.99% for the three months ended June 30, 2023, as compared to 12.25% for the three months ended June 30, 2022.

For the six months ended June 30, 2023, net income available to common shareholders was $32.1 million, or $1.28 per basic common share and $1.27 per diluted common share, compared to net income of $22.5 million, or $1.03 per basic and diluted common share, for the six months ended June 30, 2022. Return on average assets, on an annualized basis, increased to 1.04% for the six months ended June 30, 2023, from 0.88% for the six months ended June 30, 2022. Return on average equity, on an annualized basis, increased to 12.39% for the six months ended June 30, 2023, as compared to 10.12% for the six months ended June 30, 2022.

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 an actual 365-day count convention.

For the three months ended June 30, 2023, net interest income totaled $53.3 million, and net interest margin and net interest spread were 3.63% and 2.75%, respectively, compared to $49.6 million, 3.99%, and 3.81%, respectively, for the three months ended June 30, 2022. The average yield on the loan portfolio was 6.54% for the three months ended June 30, 2023, compared to 5.11% for the three months ended June 30, 2022, and the average yield on total interest-earning assets was 5.84% for the three months ended June 30, 2023, compared to 4.35% for the three months ended June 30, 2022. For the three months ended June 30, 2023, overall cost of funds (which includes noninterest-bearing deposits) increased 195 basis points compared to the three months ended June 30, 2022, primarily due to the federal reserve increasing rates during 2022 and 2023.

For the six months ended June 30, 2023, net interest income totaled $106.1 million, and net interest margin and net interest spread were 3.69% and 2.85%, respectively, compared to $90.0 million, 3.78%, and 3.61%, respectively, for the six months ended June 30, 2022. The average yield on the loan portfolio was 6.44% for the six months ended June 30, 2023, compared to 4.98% for the six months ended June 30, 2022, and the average yield on total interest-earning assets was 5.75% for the six months ended June 30, 2023, compared to 4.12% for the six months ended June 30, 2022. For the six months ended June 30, 2023, overall cost of funds (which includes noninterest-bearing deposits) increased 180 basis points compared to the six months ended June 30, 2022, primarily due to the federal reserve increasing rates during 2022 and 2023.

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 six months ended June 30, 2023, and 2022, 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 are net of deferred loan fees and discounts. Acquired loans were recorded at fair value at acquisition and accrete/amortize discounts and premiums as an adjustment to yield. Prior to January 1, 2023, and the adoption of ASU 2016-13, acquired impaired loans accreted interest income based on their estimated expected cash flows. Averages presented in the table below, and throughout this report, are month-end averages.

	For the Three Months Ended June 30,					
	2023			2022		
	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	$ 4,861,783	$ 79,223	6.54%	$ 3,894,899	$ 49,639	5.11%
Securities	916,421	5,097	2.23	966,960	4,143	1.72
Interest-bearing deposits in other banks	117,086	1,528	5.23	122,175	232	0.76
Total interest-earning assets	5,895,290	85,848	5.84	4,984,034	54,014	4.35
Allowance for loan losses	(42,010)			(29,945)		
Noninterest-earning assets	421,376			417,550		
Total assets	$ 6,274,656	$ 85,848		$ 5,371,639	$ 54,014	
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 3,405,221	$ 23,680	2.79%	$ 2,981,613	$ 2,557	0.34%
Subordinated debt	108,619	1,251	4.62	111,107	1,300	4.69
Subordinated debt - trust preferred securities	5,000	108	8.66	5,000	52	4.17
Bank Term Funding Program	384,816	4,309	4.49	-	-	-
Advances from FHLB	298,324	3,038	4.08	171,224	506	1.19
First National Bankers Bank ("FNBB") Line of Credit	-	-	-	3,333	21	2.53
Other borrowings	22,109	136	2.47	24,927	16	0.26
Total interest-bearing liabilities	4,224,089	32,522	3.09	3,297,204	4,452	0.54
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	1,410,983			1,596,174		
Other liabilities	40,329			27,830		
Total noninterest-bearing liabilities	1,451,312			1,624,004		
Shareholders' equity:						
Common shareholders' equity	527,325			450,431		
Preferred equity	71,930			-		
Total shareholders' equity	599,255			450,431		
Total liabilities and shareholders' equity	$ 6,274,656			$ 5,371,639		
Net interest rate spread (1)			2.75%			3.81%
Net interest income		$ 53,326			$ 49,562	
Net interest margin (2)			3.63%			3.99%
Overall cost of funds			2.31%			0.36%

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

	For the Six Months Ended June 30,					
	2023			2022		
	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	$ 4,790,843	$ 152,991	6.44%	$ 3,640,470	$ 89,822	4.98%
Securities	921,958	9,879	2.16	986,107	7,987	1.63
Interest-bearing deposits in other banks	87,282	2,470	5.71	171,662	327	0.38
Total interest-earning assets	5,800,083	165,340	5.75	4,798,239	98,136	4.12
Allowance for credit losses	(41,772)			(29,602)		
Noninterest-earning assets	440,549			377,235		
Total Assets	$ 6,198,860	$ 165,340		$ 5,145,872	$ 98,136	
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 3,372,358	$ 42,608	2.55%	$ 2,932,228	$ 4,820	0.33%
Subordinated debt	109,634	2,640	4.86	101,231	2,415	4.81
Subordinated debt - trust preferred securities	5,000	206	8.31	5,000	94	3.79
Bank Term Funding Program	207,411	4,689	4.56	-	-	-
Advances from FHLB	410,348	8,880	4.36	125,800	729	1.17
FNBB Line of Credit	-	-	-	1,667	21	2.54
Other borrowings	21,502	242	2.27	22,297	20	0.18
Total interest-bearing liabilities	4,126,253	59,265	2.90	3,188,223	8,099	0.51
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	1,442,084			1,483,095		
Other liabilities	36,601			26,338		
Total noninterest-bearing liabilities	1,478,685			1,509,433		
Shareholders' equity:						
Common shareholders' equity	521,992			448,216		
Preferred equity	71,930			-		
Total shareholders' equity	593,922			448,216		
Total liabilities and shareholders' equity	$ 6,198,860			$ 5,145,872		
Net interest rate spread (1)			2.85%			3.61%
Net interest income		$ 106,075			$ 90,037	
Net interest margin (2)			3.69%			3.78%
Overall cost of funds			2.15%			0.35%

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

	For the Three Months Ended June 30, 2023 compared to the Three Months Ended June 30, 2022		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands) (Unaudited)		
Interest-earning assets:			
Total loans	$ 15,755	$ 13,829	$ 29,584
Securities	(281)	1,235	954
Interest-bearing deposits in other banks	(66)	1,362	1,296
Total increase in interest income	$ 15,408	$ 16,426	$ 31,834
Interest-bearing liabilities:			
Interest-bearing deposits	$ 2,946	$ 18,177	$ 21,123
Subordinated debt	(29)	(20)	(49)
Subordinated debt - trust preferred securities	-	56	56
Bank Term Funding Program	4,309	-	4,309
Advances from FHLB	1,294	1,238	2,532
FNBB Line of Credit	-	(21)	(21)
Other borrowings	(17)	137	120
Total increase in interest expense	8,503	19,567	28,070
Increase (decrease) in net interest income	$ 6,905	$ (3,141)	$ 3,764

	For the Six Months Ended June 30, 2023 compared to the Six Months Ended June 30, 2022		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands) (Unaudited)		
Interest-earning assets:			
Total loans	$ 36,736	$ 26,433	$ 63,169
Securities	(687)	2,579	1,892
Interest-bearing deposits in other banks	(2,388)	4,531	2,143
Total increase in interest income	$ 33,661	$ 33,543	$ 67,204
Interest-bearing liabilities:			
Interest-bearing deposits	$ 5,561	$ 32,227	$ 37,788
Subordinated debt	202	23	225
Subordinated debt - trust preferred securities	-	112	112
Bank Term Funding Program	4,689	-	4,689
Advances from FHLB	6,158	1,993	8,151
FNBB Line of Credit	-	(21)	(21)
Other borrowings	(9)	231	222
Total increase in interest expense	16,601	34,565	51,166
Increase (decrease) in net interest income	$ 17,060	$ (1,022)	$ 16,038

Provision for Credit Losses

Our provision for credit losses is a charge to income in order to bring our allowance for credit losses to a level deemed appropriate by management. For a description of the factors taken into account by management in determining the allowance for credit losses see "*—Financial Condition—Allowance for Credit Losses.*" The provision for credit losses was $538,000 for the three months ended June 30, 2023, and $2.9 million for the same period in 2022. For the six months ended June 30, 2023, and 2022, the provision for credit losses was $3.8 million and $4.6 million, respectively. The lower provision for the both the three and six months ended June 30, 2023, compared to the same periods in 2022 relates primarily to lower loan growth in 2023.

Noninterest Income ("Other 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, fees and brokerage commissions and pass-through income from other investments (small business investment company ("SBIC") partnerships and fintech technology ("Fintech") funds). The following tables present, for the periods indicated, the major categories of noninterest income:

	For the Three Months Ended June 30,		
	2023	2022	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Noninterest income:			
Service charges on deposit accounts	$ 2,413	$ 2,086	$ 327
Debit card and ATM fee income	1,646	1,657	(11)
Bank-owned life insurance income	547	475	72
Gain on sales of loans	494	186	308
Loss on sales of investment securities	(61)	(8)	(53)
Fees and brokerage commissions	1,791	1,749	42
Mortgage origination income	56	161	(105)
Correspondent bank income	94	10	84
Gain on sales of other real estate owned	14	10	4
Gain on sales / disposals of other assets	14	-	14
Gain on extinguishment of debt	941	-	941
Pass-through income from other investments	2,812	52	2,760
Other	1,197	643	554
Total noninterest income	$ 11,958	$ 7,021	$ 4,937

	For the Six Months Ended June 30,		
	2023	2022	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Noninterest income:			
Service charges on deposit accounts	$ 4,694	$ 3,891	$ 803
Debit card and ATM fee income	3,216	3,158	58
Bank-owned life insurance income	1,071	844	227
Gain on sales of loans	1,105	251	854
Loss on sales of investment securities	(62)	(39)	(23)
Fees and brokerage commissions	3,604	3,584	20
Mortgage origination income	130	370	(240)
Correspondent bank income	131	14	117
Gain on sales of other real estate owned	223	18	205
Gain (loss) on sales of other assets	9	(717)	726
Gain on extinguishment of debt	941	-	941
Pass-through income from other investments	2,985	167	2,818
Other	2,299	1,376	923
Total noninterest income	$ 20,346	$ 12,917	$ 7,429

Total noninterest income increased $4.9 million, or 70.3%, from the three months ended June 30, 2022. The increase was primarily due to the increase in service charges of $327,000, or 15.7%, the increase in the gain on sales of loans of $308,000, or 165.6%, primarily due to the sale of small business administration ("SBA") loans, the gain on extinguishment of debt of $941,000 related to the redemption of subordinated debt, and the increase in pass-through income from other equity investments of $2.8 million.

Total noninterest income increased $7.4 million, or 57.5%, from the six months ended June 30, 2022. The increase was primarily due to the increase in service charges of $803,000, or 20.6%, the increase in the gain on sales of loans of $854,000, or 340.2%, primarily due to the sale of small business administration ("SBA") loans, the gain on extinguishment of debt of $941,000 related to the redemption of subordinated debt, and the increase in pass-through income from other equity investments of $2.8 million, offset by the reduction of $717,000 relating to the disposal of former branch equipment in 2022.

Noninterest Expense ("Other 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 June 30,		
	2023	2022	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Salaries and employee benefits	$ 22,339	$ 21,408	$ 931
Non-staff expenses:			
Occupancy of bank premises	2,406	2,422	(16)
Depreciation and amortization	1,720	1,734	(14)
Data processing	3,035	1,886	1,149
FDIC assessment fees	1,092	661	431
Legal and professional fees	961	735	226
Advertising and promotions	1,226	703	523
Utilities and communications	720	822	(102)
Ad valorem shares tax	965	812	153
Directors' fees	270	212	58
Other real estate owned expenses and write-downs	39	35	4
Merger and conversion related expenses	68	615	(547)
Other	4,861	4,352	509
Total noninterest expense	$ 39,702	$ 36,397	$ 3,305

	For the Six Months Ended June 30,		
	2023	2022	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Salaries and employee benefits	$ 45,515	$ 41,111	$ 4,404
Non-staff expenses:			
Occupancy of bank premises	4,703	4,474	229
Depreciation and amortization	3,430	3,303	127
Data processing	4,520	4,002	518
FDIC assessment fees	2,025	1,404	621
Legal and professional fees	1,574	1,278	296
Advertising and promotions	2,374	1,234	1,140
Utilities and communications	1,441	1,601	(160)
Ad valorem shares tax	1,930	1,625	305
Directors' fees	539	414	125
Other real estate owned expenses and write-downs	169	49	120
Merger and conversion related expenses	171	1,426	(1,255)
Other	9,990	8,196	1,794
Total noninterest expense	$ 78,381	$ 70,117	$ 8,264

Total noninterest expense increased $3.3 million, or 9.1%, from the three months ended June 30, 2022, primarily attributed to a $931,000, or 4.3%, increase in salaries and employee benefits, and a $1.1 million, or 60.9%, increase in data processing expenses. The increase in data processing costs was attributable to $715,000 in charges paid in the second quarter of 2023 due to an error identified by our data processor in their billing system.

Total noninterest expense increased $8.3 million, or 11.8%, from the six months ended June 30, 2022, primarily attributed to a $4.4 million, or 10.7%, increase in salaries and employee benefits, a $1.1 million, or 92.4%, increase in advertising and promotions, and partially offset by the reduction of $1.3 million, or 88.0%, in 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 June 30, 2023, income tax expense totaled $5.3 million, an increase of $1.8 million, or 52.3%, compared to $3.5 million for the same period in 2022. For the six months ended June 30, 2023, income tax expense totaled $9.5 million, an increase of $3.7 million, or 64.4%, compared to $5.8 million for the same period in 2022. Our effective tax rates for the three months ended June 30, 2023, and 2022 were 21.2% and 20.2%, respectively. For the six months ended June 30, 2023, and 2022, our effective tax rates were 21.5% and 20.5%, respectively.

Financial Condition

Our total assets increased $464.2 million, or 7.7%, from December 31, 2022, to June 30, 2023, due primarily from the increase in our loan portfolio.

Loan Portfolio

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

As of June 30, 2023, total loans, excluding mortgage loans held for sale, were $4.9 billion, an increase of $292.6 million, or 6.4%, compared to $4.6 billion as of December 31, 2022. The increase was primarily due to our Dallas/Fort Worth, North Louisiana and New Orleans regions which accounted for 88.2% of the loan growth based on unpaid principal balances. Additionally, $435,000, and $304,000 in loans were classified as loans held for sale as of June 30, 2023, and December 31, 2022, respectively.

Total loans held for investment as a percentage of total deposits were 97.7% and 95.6% as of June 30, 2023, and December 31, 2022, respectively. Total loans held for investment as a percentage of total assets were 75.9% and 76.9% as of June 30, 2023, and December 31, 2022, respectively.

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

	As of June 30, 2023 (Unaudited)		As of December 31, 2022	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real Estate Loans:				
Commercial	$ 2,132,044	43.5%	$ 2,020,406	43.9%
Construction	719,080	14.7	722,074	15.7
Residential	675,462	13.8	656,378	14.2
Total Real Estate Loans	3,526,586	72.0	3,398,858	73.8
Commercial	1,309,222	26.7	1,153,873	25.0
Consumer and Other	62,929	1.3	53,445	1.2
Total loans held for investment	$ 4,898,737	100.0%	$ 4,606,176	100.0%

SBA Paycheck Protection Program (“PPP”) loans accounted for $1.4 million and $2.8 million of the commercial portfolio as of June 30, 2023, and December 31, 2022, respectively.

Real Estate: Commercial loans are extensions of credit secured by owner-occupied and non-owner-occupied collateral. Repayment is generally dependent on 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. Real estate commercial loans also include farmland loans that can be, or are, used for agricultural purposes. These loans are usually repaid through permanent financing, cash flow from the borrower’s ongoing operations, development of the property, or sale of the property.

Real Estate: Commercial loans increased $111.6 million, or 5.5%, to $2.1 billion as of June 30, 2023, from $2.0 billion as of December 31, 2022.

Real Estate: Construction loans include loans to small-to-midsized businesses to construct owner-occupied 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 changes 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 we funded the loan.

Real Estate: Construction loans decreased $3.0 million, or 0.4%, to $719.1 million as of June 30, 2023, from $722.1 million as of December 31, 2022.

Real Estate: Residential loans include first and second lien 1-4 family mortgage loans, as well as home equity lines of credit, in each case primarily on owner-occupied primary residences. The Company is 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. Real estate residential loans also include multi-family residential loans originated to provide permanent financing for multi-family residential income producing properties. Repayment of these loans primarily relies on successful rental and management of the property.

Real Estate: Residential loans increased $19.1 million, or 2.9%, to $675.5 million as of June 30, 2023, from $656.4 million as of December 31, 2022.

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 the Company's target markets that are underwritten based on 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.

Commercial loans increased $155.3 million, or 13.5%, to $1.3 billion as of June 30, 2023, from $1.2 billion as of December 31, 2022.

Consumer and other 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.

Consumer and other loans increased $9.5 million, or 17.7%, to $62.9 million as of June 30, 2023, from $53.4 million as of December 31, 2022.

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 the date indicated are summarized in the following tables:

	As of June 30, 2023				
	One Year or Less	One Through Five Years	Five Through Fifteen Years	After Fifteen Years	Total
	(Dollars in thousands)				
Real Estate Loans:					
Commercial	$ 238,328	$ 1,135,550	$ 649,450	$ 108,716	$ 2,132,044
Construction	311,374	327,254	66,924	13,528	719,080
Residential	75,755	387,489	149,030	63,188	675,462
Total Real Estate Loans	625,457	1,850,293	865,404	185,432	3,526,586
Commercial	529,472	535,774	243,184	792	1,309,222
Consumer and Other	32,903	25,542	4,278	206	62,929
Total loans held for investment	$ 1,187,832	$ 2,411,609	$ 1,112,866	$ 186,430	$ 4,898,737
Fixed rate loans:					
Real Estate Loans:					
Commercial	$ 133,531	$ 967,705	$ 504,331	$ 14,454	$ 1,620,021
Construction	99,165	208,961	35,882	6,970	350,978
Residential	47,313	339,488	92,042	13,401	492,244
Total Real Estate Loans	280,009	1,516,154	632,255	34,825	2,463,243
Commercial	139,881	316,396	162,296	-	618,573
Consumer and Other	23,591	18,443	3,314	163	45,511
Total fixed rate loans	$ 443,481	$ 1,850,993	$ 797,865	$ 34,988	$ 3,127,327
Floating rate loans:					
Real Estate Loans:					
Commercial	$ 104,797	$ 167,845	$ 145,119	$ 94,262	$ 512,023
Construction	212,209	118,293	31,042	6,558	368,102
Residential	28,442	48,001	56,988	49,787	183,218
Total Real Estate Loans	345,448	334,139	233,149	150,607	1,063,343
Commercial	389,591	219,378	80,888	792	690,649
Consumer and Other	9,312	7,099	964	43	17,418
Total floating rate loans	$ 744,351	$ 560,616	$ 315,001	$ 151,442	$ 1,771,410

	As of December 31, 2022				
	One Year or Less	One Through Five Years	Five Through Fifteen Years	After Fifteen Years	Total
	(Dollars in thousands)				
Real Estate Loans:					
Commercial	$ 229,679	$ 1,024,273	$ 645,257	$ 121,197	$ 2,020,406
Construction	274,027	381,218	59,813	7,016	722,074
Residential	69,444	370,483	157,849	58,602	656,378
Total Real Estate Loans	573,150	1,775,974	862,919	186,815	3,398,858
Commercial	455,809	462,414	235,333	317	1,153,873
Consumer and Other	23,391	24,823	5,021	210	53,445
Total loans held for investment	$ 1,052,350	$ 2,263,211	$ 1,103,273	$ 187,342	$ 4,606,176
Fixed rate loans:					
Real Estate Loans:					
Commercial	$ 124,261	$ 885,532	$ 508,455	$ 9,339	$ 1,527,587
Construction	95,358	242,554	35,137	3,674	376,723
Residential	41,512	321,796	96,648	12,341	472,297
Total Real Estate Loans	261,131	1,449,882	640,240	25,354	2,376,607
Commercial	146,321	286,908	164,383	-	597,612
Consumer and Other	15,113	19,147	3,884	164	38,308
Total fixed rate loans	$ 422,565	$ 1,755,937	$ 808,507	$ 25,518	$ 3,012,527
Floating rate loans:					
Real Estate Loans:					
Commercial	$ 105,418	$ 138,741	$ 136,802	$ 111,858	$ 492,819
Construction	178,669	138,664	24,676	3,342	345,351
Residential	27,932	48,687	61,201	46,261	184,081
Total Real Estate Loans	312,019	326,092	222,679	161,461	1,022,251
Commercial	309,488	175,506	70,950	317	556,261
Consumer and Other	8,278	5,676	1,137	46	15,137
Total floating rate loans	$ 629,785	$ 507,274	$ 294,766	$ 161,824	$ 1,593,649

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 the timely resolution of problem assets. We had $19.1 million and $12.8 million in nonperforming assets as of June 30, 2023, and December 31, 2022, respectively. We had $17.5 million in nonperforming loans as of June 30, 2023, compared to $11.4 million as of December 31, 2022. The increase in nonperforming assets from December 31, 2022, to June 30, 2023, is primarily due to the adoption of CECL and the elimination of ASC 310-30 which excluded purchased impaired loans accreting interest income.

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

	As of June 30, 2023 (Unaudited)	As of December 31, 2022
	(Dollars in thousands)	
Nonaccrual loans	$ 17,006	$ 11,054
Accruing loans 90 or more days past due	468	335
Total nonperforming loans	17,474	11,389
Other nonperforming assets	29	62
Other real estate owned:		
Commercial real estate, construction, land and land development	1,199	1,199
Residential real estate	388	173
Total other real estate owned	1,587	1,372
Total nonperforming assets	$ 19,090	$ 12,823
Ratio of nonperforming loans to total loans held for investment	0.36%	0.25%
Ratio of nonperforming assets to total assets	0.30	0.21
Ratio of nonaccrual loans to total loans held for investment	0.35	0.24

	As of June 30, 2023 (Unaudited)	As of December 31, 2022
	(Dollars in thousands)	
Nonaccrual loans by category:		
Real Estate Loans:		
Commercial	$ 3,081	$ 2,644
Construction	2,423	992
Residential	7,034	4,080
Total Real Estate Loans	12,538	7,716
Commercial	4,235	3,150
Consumer and Other	233	188
Total	$ 17,006	$ 11,054

Potential Problem Loans

From a credit risk standpoint, we classify loans 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. See Note 6 of the consolidated financial statements for the presentation of loans in their credit quality categories that is in compliance with the CECL standard.

	As of June 30, 2023				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands) (Unaudited)				
Real Estate Loans:					
Commercial	$ 2,093,233	$ 27,893	$ 9,485	$ 1,433	$ 2,132,044
Construction	714,797	605	3,333	345	719,080
Residential	663,461	2,447	8,875	679	675,462
Total Real Estate Loans	3,471,491	30,945	21,693	2,457	3,526,586
Commercial	1,279,081	20,086	7,918	2,137	1,309,222
Consumer and Other	62,554	2	373	-	62,929
Total	$ 4,813,126	$ 51,033	$ 29,984	$ 4,594	$ 4,898,737

	As of December 31, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real Estate Loans:					
Commercial	$ 1,972,611	$ 35,054	$ 10,478	$ 2,263	$ 2,020,406
Construction	716,071	3,496	2,157	350	722,074
Residential	643,763	3,780	7,925	910	656,378
Total Real Estate Loans	3,332,445	42,330	20,560	3,523	3,398,858
Commercial	1,137,555	6,646	6,960	2,712	1,153,873
Consumer and Other	53,041	-	404	-	53,445
Total	$ 4,523,041	$ 48,976	$ 27,924	$ 6,235	$ 4,606,176

Allowance for Credit Losses

We maintain an allowance for credit losses, which includes both our allowance for loan losses and reserves for unfunded commitments, that represents management's best estimate of the credit losses and risks inherent in the loan portfolio. In determining the allowance for credit 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 credit losses is based on internally assigned risk classifications of loans, 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 credit 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 Real Estate: Commercial 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 Real Estate: Construction 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;
- for Real Estate: Residential real estate 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 Commercial 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;

As of June 30, 2023, the allowance for credit losses totaled $45.6 million, or 0.93%, of total loans held for investment. As of December 31, 2022, the allowance for credit losses totaled $38.8 million, or 0.84%, of total loans held for investment.

The following tables present, as of and for the periods indicated, an analysis of the allowance for credit losses and other related data:

	As of and For the Six Months Ended June 30, 2023 (Unaudited)	As of and For the Year Ended December 31, 2022
	(Dollars in thousands)	
Average loans outstanding (1)	$ 4,790,843	$ 4,020,436
Gross loans held for investment outstanding end of period	$ 4,898,737	$ 4,606,176
Allowance for credit losses at beginning of period	$ 38,783	$ 29,936
Adoption of ASU 2016-13	5,857	-
Provision for credit losses	3,760	10,667
Charge-offs:		
Real Estate:		
Commercial	1,827	51
Construction	1	16
Residential	42	191
Total Real Estate	1,870	258
Commercial	373	2,139
Consumer and other	724	424
Total charge-offs	2,967	2,821
Recoveries:		
Real Estate:		
Commercial	16	50
Construction	-	25
Residential	7	20
Total Real Estate	23	95
Commercial	82	739
Consumer and other	102	167
Total recoveries	207	1,001
Net charge-offs	2,760	1,820
Allowance for credit losses at end of period	$ 45,640	$ 38,783
Ratio of allowance for credit losses to end of period loans held for investment	0.93%	0.84%
Ratio of net charge-offs to average loans	0.06	0.05
Ratio of allowance for credit losses to nonaccrual loans	268.38	350.85

(1) Excluding loans held for sale

	As of and For the Six Months Ended June 30, 2023 (Unaudited)		As of and For the Year Ended December 31, 2022		As of and For the Six Months Ended June 30, 2022 (Unaudited)	
	Net Charge-offs (Recoveries)	Percent of Average Loans	Net Charge-offs (Recoveries)	Percent of Average Loans	Net Charge-offs (Recoveries)	Percent of Average Loans
	(Dollars in thousands)					
Real estate:						
Commercial	$ 1,811	0.04%	$ 1	0.00%	$ 22	0.00%
Construction	1	0.00%	(9)	0.00%	(12)	0.00%
Residential	35	0.00%	171	0.00%	-	0.00%
Total Real Estate Loans	1,847	0.04%	163	0.00%	10	0.00%
Commercial	291	0.01%	1,400	0.04%	1,235	0.03%
Consumer and Other	622	0.01%	257	0.01%	112	0.01%
Total net charge-offs (recoveries)	$ 2,760	0.06%	$ 1,820	0.05%	$ 1,357	0.04%

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

	As of June 30, 2023 (Unaudited)		As of December 31, 2022		As of June 30, 2022 (Unaudited)	
	Amount	Percent to Total	Amount	Percent to Total	Amount	Percent to Total
	(Dollars in thousands)					
Real estate:						
Commercial	$ 18,448	40.4%	$ 14,922	38.5%	$ 13,073	39.6%
Construction	10,019	22.0	5,905	15.2	5,135	15.6
Residential	5,484	12.0	5,367	13.8	5,197	15.8
Total real estate	33,951	74.4	26,194	67.5	23,405	71.0
Commercial	11,258	24.7	11,950	30.8	8,925	27.1
Consumer and Other	431	0.9	639	1.7	627	1.9
Total allowance for credit losses	$ 45,640	100.0%	$ 38,783	100.0%	$ 32,957	100.0%

Securities

We use our securities portfolio to provide a source of liquidity, an appropriate return on funds invested, manage interest rate risk, meet collateral requirements, and meet regulatory capital requirements. As of June 30, 2023, the carrying amount of investment securities totaled $877.8 million, a decrease of $13.0 million, or 1.5%, compared to $890.8 million as of December 31, 2022. The decrease was primarily due to unrealized losses in the first six months of 2023. Securities represented 13.6% and 14.9% of total assets as of June 30, 2023, and December 31, 2022, respectively.

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

	As of June 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands) (Unaudited)			
U.S. treasury securities	$ 32,731	$ -	$ 2,508	$ 30,223
U.S. government agencies	50,253	-	2,821	47,432
Corporate bonds	49,383	-	6,559	42,824
Mortgage-backed securities	501,470	38	57,472	444,036
Municipal securities	346,333	37	33,111	313,259
Total	$ 980,170	$ 75	$ 102,471	$ 877,774

	As of December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. treasury securities	$ 32,783	$ -	$ 2,668	$ 30,115
U.S. government agencies	50,288	-	2,916	47,372
Corporate bonds	48,475	25	2,496	46,004
Mortgage-backed securities	506,671	267	55,213	451,725
Municipal securities	347,382	11	31,858	315,535
Total	$ 985,599	$ 303	$ 95,151	$ 890,751

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.

We evaluate our available for sale securities portfolio on a quarterly basis for potential credit-related impairment. We assess potential credit impairment by comparing the fair value of a debt security to its amortized cost basis. If the fair value of a debt security is greater than the amortized cost basis, no impairment is recognized. If the fair value is less than the amortized cost basis, we review the factors to determine if the impairment is credit-related or noncredit-related. For debt securities we intend to sell or are more likely than not required to sell, before the recovery of their amortized cost basis, the difference between fair value and amortized cost is impaired and is recognized through earnings. For debt securities we do not intend to sell or are more likely than not required to sell, prior to expected recovery of amortized cost basis, the credit portion of the impairment is recognized through earnings, with a corresponding entry to an allowance for credit losses, and the noncredit portion is recognized through accumulated other comprehensive income.

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

	As of June 30, 2023									
	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. treasury securities	$ 9,759	1.50%	$ 20,464	0.77%	$ -	-%	$ -	-%	$ 30,223	1.00%
U.S. government agencies	-	-%	47,432	1.89%	-	-%	-	-%	47,432	1.89%
Corporate bonds	28	-%	667	3.46%	42,129	4.61%	-	-%	42,824	4.59%
Mortgage-backed securities	2,529	1.19%	50,566	1.77%	158,305	1.96%	232,636	2.22%	444,036	2.07%
Municipal securities	15,448	1.70%	98,757	1.51%	122,822	1.89%	76,232	2.36%	313,259	1.88%
Total	$ 27,764	1.58%	$ 217,886	1.59%	$ 323,256	2.28%	$ 308,868	2.26%	$ 877,774	2.08%

	As of December 31, 2022									
	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. treasury securities	$ -	-%	$ 30,115	1.00%	$ -	-%	$ -	-%	$ 30,115	1.00%
U.S. government agencies	-	-%	47,372	1.63%	-	-%	-	-%	47,372	1.63%
Corporate bonds	151	-%	2,500	4.08%	43,353	4.49%	-	-%	46,004	4.45%
Mortgage-backed securities	2,458	0.97%	41,738	1.65%	172,301	1.69%	235,228	1.94%	451,725	1.81%
Municipal securities	15,299	1.76%	97,064	1.44%	120,905	1.79%	82,267	2.13%	315,535	1.77%
Total	$ 17,908	1.64%	$ 218,789	1.49%	$ 336,559	2.08%	$ 317,495	1.99%	$ 890,751	1.90%

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 prepay. Monthly paydowns on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal and, consequently, the average life of this security will be lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of this security. The weighted average life of our investment portfolio was 4.56 years with an estimated effective duration of 3.80 years as of June 30, 2023.

As of June 30, 2023, and December 31, 2022, 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 June 30, 2023, and December 31, 2022, the Company held other equity securities of $34.8 million and $37.5 million, respectively, comprised mainly of FHLB stock, small business investment companies ("SBICs") and financial technology ("Fintech") fund investments.

Deposits

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

Total deposits as of June 30, 2023, were $5.0 billion, an increase of $194.1 million, or 4.0%, compared to $4.8 billion as of December 31, 2022. Total uninsured deposits were $1.9 billion, or 38.1%, of total deposits as of June 30, 2023 compared to $1.5 billion, or 31.9%, of total deposits as of December 31, 2022.

Noninterest-bearing deposits as of June 30, 2023, were $1.4 billion compared to $1.5 billion as of December 31, 2022, a decrease of $120.0 million, or 7.7%.

Average deposits for the six months ended June 30, 2023, were $4.8 billion, an increase of $266.6 million, or 5.9%, over the full year average for the year ended December 31, 2022, of $4.5 billion. The average rate paid on total interest-bearing deposits increased over this period from 0.81% for the year ended December 31, 2022, to 2.55% for the six months ended June 30, 2023. The increase in average rates was driven by the federal reserve raising rates during the year ended December 31, 2022, and continuing in the six months ended June 30, 2023. In addition, the stability of noninterest-bearing demand accounts served to reduce the cost of deposits to 1.78% for the six months ended June 30, 2023, compared to 0.54% for the year ended December 31, 2022.

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

	For the Six Months Ended June 30, 2023 (Unaudited)		For the Year Ended December 31, 2022	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)			
Interest-bearing demand accounts	$ 475,307	3.31%	$ 298,845	1.31%
Negotiable order of withdrawal ("NOW") accounts	500,331	1.17%	536,742	0.30%
Limited access money market accounts and savings	1,413,666	2.30%	1,483,763	0.81%
Certificates and other time deposits > $250k	383,581	3.51%	208,661	1.03%
Certificates and other time deposits ≤ $250k	599,473	3.07%	479,871	0.98%
Total interest-bearing deposits	3,372,358	2.55%	3,007,882	0.81%
Noninterest-bearing demand accounts	1,442,084	-%	1,539,938	-%
Total deposits	$ 4,814,442	1.78%	$ 4,547,820	0.54%

The ratio of average noninterest-bearing deposits to average total deposits for the six months ended June 30, 2023, and the year ended December 31, 2022, was 30.0% and 33.9%, respectively.

The following table sets forth the contractual maturities of certain certificates of deposit at June 30, 2023:

	Certificates of Deposit More Than $250,000	Certificates of Deposit of $100,000 Through $250,000
	(Dollars in thousands) (Unaudited)	
3 months or less	$ 31,809	$ 141,164
More than 3 months but less than 6 months	164,042	125,340
More than 6 months but less than 12 months	179,353	123,155
12 months or more	220,043	66,924
Total	$ 595,247	$ 456,583

Federal Funds Purchased Lines of Credit Relationships

We maintain Federal Funds Purchased Lines of Credit Relationships with the following correspondent banks and limits as of June 30, 2023:

	Fed Funds Purchase Limits
	(Dollars in thousands)
TIB National Association	$ 45,000
PNC Bank	38,000
FNBB	35,000
First Horizon Bank	17,000
ServisFirst Bank	10,000
South State Bank	9,000
Total	$ 154,000

We had $14.1 million in outstanding balances at December 31, 2022 and no outstanding balance as of June 30, 2023.

Liquidity and Capital Resources

Liquidity

Liquidity involves our ability to utilize funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events. For the six months ended June 30, 2023, and the year ended December 31, 2022, liquidity needs were primarily met by core deposits, security and loan maturities, and amortizing investment and loan portfolios. In addition, we also utilize brokered deposits, purchased funds from correspondent banks, bank term funding program, and overnight advances from the FHLB. As of June 30, 2023, and December 31, 2022, we maintained six federal funds purchased lines of credit with correspondent banks which provided for extensions of credit with an availability to borrow up to an aggregate of $154.0 million. There was $14.1 million drawn under these lines of credit at December 31, 2022 and none drawn at June 30, 2023. We had an additional $1.4 billion and $1.3 billion of availability through the FHLB at June 30, 2023, and December 31, 2022, respectively.

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 $6.2 billion and $5.5 billion for the six months ended June 30, 2023, and the year ended December 31, 2022, respectively.

	For the Six Months Ended June 30, 2023 (Unaudited)	For the Year Ended December 31, 2022
Source of Funds:		
Deposits:		
Noninterest-bearing	23.3%	28.1%
Interest-bearing	54.4	55.0
Subordinated debt (excluding trust preferred securities)	1.8	1.9
Advances from FHLB	6.6	4.9
Other borrowings	0.4	0.6
Bank Term Funding Program	3.3	-
Other liabilities	0.6	0.7
Shareholders' equity	9.6	8.8
Total	100.0%	100.0%
Uses of Funds:		
Loans, net of allowance for loan losses	76.6%	72.9%
Securities available for sale	14.9	17.5
Interest-bearing deposits in other banks	1.4	2.1
Other noninterest-earning assets	7.1	7.5
Total	100.0%	100.0%
Average noninterest-bearing deposits to average deposits	30.0%	33.9%
Average loans to average deposits	99.5	88.4

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 net loans increased 31.5% for the six months ended June 30, 2023, compared to the same period in 2022, impacted by significant growth in our Dallas/Fort Worth region. We predominantly invest excess deposits in overnight deposits with the Federal Reserve, securities, interest-bearing deposits at other banks or other short-term liquid investments until needed to fund loan growth. Our securities portfolio had a weighted average life of 4.56 years and an effective duration of 3.80 years as of June 30, 2023. As of December 31, 2022, our securities portfolio had a weighted average life of 4.88 years and an effective duration of 4.09 years.

As of June 30, 2023, we had outstanding $1.3 billion in commitments to extend credit and $45.1 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2022, we had outstanding $1.3 billion in commitments to extend credit and $45.6 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.

As of June 30, 2023, and December 31, 2022 we had cash and cash equivalents, including federal funds sold, of $354.8 million and $168.3 million, respectively. We had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature for either period.

Capital Resources

Total shareholders' equity increased to $601.0 million as of June 30, 2023, compared to $580.5 million as of December 31, 2022, an increase of $20.5 million, or 3.5%. This increase was primarily due to net income of $34.8 million offset with other comprehensive losses of $7.1 million resulting from the after-tax effect of unrealized losses in our investment securities portfolio, and dividends paid on preferred stock and common stock of $8.8 million.

On July 27, 2023, our Board declared a quarterly dividend in the amount of $18.75 per preferred share to the preferred shareholders of record as of August 15, 2023. The dividend is to be paid on August 31, 2023, or as soon as practicable thereafter.

On July 27, 2023, our Board declared a quarterly dividend based upon our financial performance for the three months ended June 30, 2023, in the amount of $0.12 per common share to the common shareholders of record as of August 15, 2023. The dividend is to be paid on August 31, 2023, 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 June 30, 2023, and December 31, 2022, 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.

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

	As of June 30, 2023 (Unaudited)		As of December 31, 2022	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Business First				
Total capital (to risk weighted assets)	$ 727,734	12.49%	$ 704,840	12.75%
Tier 1 capital (to risk weighted assets)	584,116	10.03%	557,088	10.07%
Common Equity Tier 1 capital (to risk weighted assets)	507,186	8.71%	480,158	8.68%
Tier 1 Leverage capital (to average assets)	584,116	9.35%	557,088	9.49%
b1BANK				
Total capital (to risk weighted assets)	$ 701,950	12.06%	$ 657,588	11.91%
Tier 1 capital (to risk weighted assets)	656,310	11.27%	618,805	11.20%
Common Equity Tier 1 capital (to risk weighted assets)	656,310	11.27%	618,805	11.20%
Tier 1 Leverage capital (to average assets)	656,310	10.51%	618,805	10.55%

Preferred Stock

On September 1, 2022, we entered into a securities purchase agreement with certain investors pursuant to which we offered and sold shares of our 7.50% fixed-to-floating rate non-cumulative perpetual preferred stock, with no par value, for an aggregate purchase price of $72.0 million. The preferred stock was structured to qualify as additional Tier 1 capital under applicable regulatory capital guidelines. Holders of the preferred stock will be entitled to receive, if, when, and as declared by our Board, non-cumulative cash dividends at a rate of 7.50% for the first five years following issuance and thereafter at a variable rate equal to the then current 3-month secured overnight financing rate ("SOFR"), reset quarterly, plus 470 basis points. The preferred stock has a perpetual term and may not be redeemed, except under certain circumstances, under the first five years of issuance.

Long Term Debt

During the year ended December 31, 2022, as part of the acquisition of TCBI, we assumed $26.4 million in subordinated debt. As part of this debt, we recorded a fair value adjustment premium in the amount of $3.4 million, to accrete over five-to-seven years, with a remaining adjustment of $1.7 million as of June 30, 2023. We recognized $941,000 in gains on the extinguishment of debt during the three months ended June 30, 2023.

FHLB Advances

Advances from the FHLB totaled approximately $362.2 million and $410.1 million at June 30, 2023 and December 31, 2022, respectively. As of June 30, 2023, and December 31, 2022, the FHLB advances were collateralized by a blanket floating lien on certain securities and loans, had a weighted average stated rate of 4.22% and 3.88%, respectively, and mature within five years. At June 30, 2023, $145.0 million in advances were short term with a rate of 5.37% to 5.50%. At December 31, 2022, $262.0 million in advances were short term with a rate of 4.55%.

Bank Term Funding Program ("BTFP")

On March 12, 2023, the Federal Reserve launched the BTFP, which offers loans to banks with a term of up to one year. The loans are secured by pledging the banks' U.S. treasuries, agency securities, agency mortgage-backed securities, and any other qualifying assets. These pledged securities will be valued at par for collateral purposes. The Bank participated in the BTFP and had outstanding debt of $300.0 million at June 30, 2023.

Contractual Obligations

The following tables summarize contractual obligations and other commitments to make future payments as of June 30, 2023, and December 31, 2022 (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, 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 $362.2 million and $410.1 million at June 30, 2023 and December 31, 2022, respectively. As of June 30, 2023, and December 31, 2022, the FHLB advances were collateralized by a blanket floating lien on certain securities and loans, had a weighted average stated rate of 4.22% and 3.88%, respectively, and mature within five years. We participated in the BTFP in March 2023 and as of June 30, 2023, had outstanding debt of $300.0 million, at a fixed rate of 4.38% and set to mature on March 22, 2024. The subordinated debt totaled $103.8 million and $110.7 million at June 30, 2023 and December 31, 2022, respectively. Of this subordinated debt, $25.0 million 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, $52.5 million of this subordinated debt bears interest at a fixed rate of 4.25% through March 31, 2026 and a floating rate, based on a benchmark rate plus 354 basis points, thereafter through maturity in 2031, $3.9 million of this subordinated debt bears interest at a fixed rate of 4.75% through April 1, 2026 and a floating rate, based on a benchmark rate plus 442 basis points, thereafter through maturity in 2031. We acquired three separate notes as part of the TCBI acquisition totaling $26.4 million. Of those notes, $10.0 million bears interest at a fixed rate of 6.25% until April 11, 2023, then will reset to a floating interest rate based on a benchmark plus 350 basis points, adjusting quarterly until maturity on April 11, 2028, $7.5 million bears a fixed rate of 6.38% until December 13, 2023, then will reset to a floating interest rate based on a benchmark rate plus 350 basis points, adjusting quarterly, until maturity on December 13, 2028, $8.9 million was called on May 1, 2023 and as of such date, no longer bears interest. Of this $8.9 million note, $5.7 million was extinguished during the three months ended June 30, 2023. As part of valuing these three subordinated notes from TCBI, we incurred a fair value adjustment premium of $3.4 million that will accrete over five-to-seven years, with $1.7 million and $2.9 million remaining at June 30, 2023 and December 31, 2022, respectively. We recognized $941,000 in gains on the extinguishment of this debt during the three months ended June 30, 2023.

	As of June 30, 2023				
	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	$ 1,863	$ 5,915	$ 3,908	$ 4,112	$ 15,798
Time deposits	916,853	288,824	44,469	21	1,250,167
Subordinated debt (including premium)	3,947	460	439	98,976	103,822
Advances from FHLB	145,000	50,875	166,287	-	362,162
BTFP	300,000	-	-	-	300,000
Subordinated debt - trust preferred securities	-	-	-	5,000	5,000
Securities sold under agreements to repurchase	23,230	-	-	-	23,230
Standby and commercial letters of credit	40,769	4,275	71	25	45,140
Commitments to extend credit	649,315	327,993	150,485	126,196	1,253,989
Total	$ 2,080,977	$ 678,342	$ 365,659	$ 234,330	$ 3,359,308

	As of December 31, 2022				
	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	$ 3,725	$ 5,915	$ 3,908	$ 4,112	$ 17,660
Time deposits	601,980	145,606	38,971	20	786,577
Subordinated debt (including premium)	613	1,227	9,839	99,070	110,749
Advances from FHLB	262,000	875	147,225	-	410,100
Subordinated debt - trust preferred securities	-	-	-	5,000	5,000
Securities sold under agreements to repurchase	20,208	-	-	-	20,208
Standby and commercial letters of credit	18,706	26,468	377	-	45,551
Commitments to extend credit	654,067	342,844	200,971	147,288	1,345,170
Total	$ 1,561,299	$ 522,935	$ 401,291	$ 255,490	$ 2,741,015

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. Other than back-to-back customer interest rate swaps, we do not enter into instruments such as leveraged derivatives, interest rate swaps, financial options, financial futures contracts or forward delivery contracts for the purpose of reducing interest rate risk. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is reviewed by the asset-liability committee of b1BANK, in accordance with policies approved by our board of directors. 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 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 June 30, 2023		As of December 31, 2022	
Change in Interest Rates (Basis Points)	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity
+300	(4.40%)	(4.31%)	(8.60%)	(5.55%)
+200	(2.90%)	(2.66%)	(5.90%)	(3.65%)
+100	(1.50%)	(1.04%)	(3.50%)	(1.94%)
Base	-%	-%	-%	-%
-100	(0.40%)	1.25%	(0.70%)	1.76%
-200	(2.50%)	2.27%	(2.30%)	3.38%

The results are primarily due to the balance sheet mix and behavior of demand, money market and savings deposits during such rate fluctuations. The model also assumes no management intervention. 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, gains/losses on sales of securities, 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 certain 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 available to common shareholders, which excludes certain income and expenses, for the three months ended June 30, 2023, was $17.7 million, or $0.70 per diluted common share, compared to core net income available to common shareholders of $14.6 million, or $0.64 per diluted common share, for the three months ended June 30, 2022. Notable noncore events impacting earnings for the three months ended June 30, 2023, included $941,000 in a gain on the extinguishment of debt due to the premium associated with the debt from the TCBI acquisition in 2022, which was attributed to the $5.7 million subordinated debt redemption, compared to $708,000 in acquisition-related expenses and $270,000 in expenses attributable to storm repairs (primarily related to storms in 2021) for the same period in 2022.

For the six months ended June 30, 2023, core net income available to common shareholders was $31.5 million, or $1.25 per diluted common share, compared to core net income available to common shareholders of $24.8 million, or $1.14 per diluted common share, for the six months ended June 30, 2022. Notable noncore events impacting earnings for the six months ended June 30, 2023, included $941,000 in a gain on the extinguishment of debt due to the premium associated with the debt from the TCBI acquisition in 2022, which was attributed to the $5.7 million subordinated debt redemption and $171,000 in acquisition-related expenses, compared to the six months ended June 30, 2022, included the incurrence of losses of $717,000 on disposals of former bank premises and equipment included in other income, $1.5 million in acquisition-related expenses and $501,000 in expenses attributable to storm repairs (primarily related to storms in 2021) for the same period in 2022.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
	(Dollars in thousands, except per share data) (Unaudited)			
Interest Income:				
Interest income	$ 85,848	$ 54,014	$ 165,340	$ 98,136
Core interest income	85,848	54,014	165,340	98,136
Interest Expense:				
Interest expense	32,522	4,452	59,265	8,099
Core interest expense	32,522	4,452	59,265	8,099
Provision for Credit Losses:				
Provision for credit losses	538	2,945	3,760	4,562
Core provision expense	538	2,945	3,760	4,562
Other Income:				
Other income	11,958	7,021	20,346	12,917
Losses on former bank premises and equipment	-	-	-	717
Losses on sale of securities	61	8	62	39
Gain on extinguishment of debt	(941)	-	(941)	-
Core other income	11,078	7,029	19,467	13,673
Other Expense:				
Other expense	39,702	36,397	78,381	70,117
Acquisition-related expenses (2)	(68)	(708)	(171)	(1,519)
Occupancy and bank premises - storm repair	-	(270)	-	(501)
Core other expense	39,634	35,419	78,210	68,097
Pre-Tax Income:				
Pre-tax income	25,044	17,241	44,280	28,275
Losses on former bank premises and equipment	-	-	-	717
Losses on sale of securities	61	8	62	39
Gain on extinguishment of debt	(941)	-	(941)	-
Acquisition-related expenses (2)	68	708	171	1,519
Occupancy and bank premises - storm repair	-	270	-	501
Core pre-tax income	24,232	18,227	43,572	31,051
Provision for Income Taxes: (1)				
Provision for income taxes	5,305	3,484	9,516	5,787
Tax on losses on former bank premises and equipment	-	-	-	151
Tax on losses on sale of securities	13	2	13	9
Tax on gain on extinguishment of debt	(199)	-	(199)	-
Tax on acquisition-related expenses (2)	14	126	20	174
Tax on occupancy and bank premises - storm repair	-	57	-	106
Core provision for income taxes	5,133	3,669	9,350	6,227
Preferred Dividends				
Preferred dividends	1,350	-	2,700	-
Core preferred dividends	1,350	-	2,700	-
Net Income Available to Common Shareholders:				
Net income available to common shareholders	18,389	13,757	32,064	22,488
Losses on former bank premises and equipment , net of tax	-	-	-	566
Losses on sale of securities, net of tax	48	6	49	30
Gain on extinguishment of debt, net of tax	(742)	-	(742)	-
Acquisition-related expenses (2), net of tax	54	582	151	1,345
Occupancy and bank premises - storm repair, net of tax	-	213	-	395
Core net income available to common shareholders	$ 17,749	$ 14,558	$ 31,522	$ 24,824
Diluted Earnings Per Common Share:				
Diluted earnings per common share	$ 0.73	$ 0.61	$ 1.27	$ 1.03
Losses on former bank premises and equipment , net of tax	-	-	-	0.03
Losses on sale of securities, net of tax	-	-	-	-
Gain on extinguishment of debt, net of tax	(0.03)	-	(0.03)	-
Acquisition-related expenses (2), net of tax	-	0.02	0.01	0.06
Occupancy and bank premises - storm repair, net of tax	-	0.01	-	0.02
Core diluted earnings per common share	$ 0.70	$ 0.64	$ 1.25	$ 1.14

(1) Tax rates, exclusive of certain nondeductible acquisition-related expenses and goodwill, utilized were 21% for both 2023 and 2022. These rates approximate 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 preferred stock, goodwill, and core deposit and customer intangible assets, net of accumulated amortization, and (2) tangible book value per common share as tangible common equity divided by shares of common stock outstanding. The most directly comparable GAAP financial measure for tangible book value per common share is book value per common share.

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

	As of June 30, 2023	As of December 31, 2022
	(Dollars in thousands, except per share data) (Unaudited)	
Tangible Common Equity		
Total shareholders' equity	$ 600,968	$ 580,481
Preferred stock	(71,930)	(71,930)
Total common shareholders' equity	529,038	508,551
Adjustments:		
Goodwill	(88,543)	(88,543)
Core deposit and customer intangibles	(12,993)	(14,042)
Total tangible common equity	$ 427,502	$ 405,966
Common shares outstanding (1)	25,344,168	25,110,313
Book value per common shares (1)	$ 20.87	$ 20.25
Tangible book value per common shares (1)	16.87	16.17

(1) Excludes the dilutive effect, if any, of 237,021 and 184,015 shares of common stock issuable upon exercise of outstanding stock options and restricted stock awards as of June 30, 2023 and December 31, 2022, 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 and customer intangible assets, net of accumulated amortization. The most directly comparable GAAP financial measure for tangible common equity to tangible assets is total common shareholders' equity to total assets.

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

	As of June 30, 2023	As of December 31, 2022
	(Dollars in thousands, except per share data) (Unaudited)	
Tangible Common Equity		
Total shareholders' equity	$ 600,968	$ 580,481
Preferred stock	(71,930)	(71,930)
Total common shareholders' equity	529,038	508,551
Adjustments:		
Goodwill	(88,543)	(88,543)
Core deposit and customer intangibles	(12,993)	(14,042)
Total tangible common equity	$ 427,502	$ 405,966
Tangible Assets		
Total Assets	$ 6,454,649	$ 5,990,460
Adjustments:		
Goodwill	(88,543)	(88,543)
Core deposit and customer intangibles	(12,993)	(14,042)
Total tangible assets	$ 6,353,113	$ 5,887,875
Common Equity to Total Assets	8.2%	8.5%
Tangible Common Equity to Tangible Assets	6.7	6.9

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

Credit risk represents the possibility that a customer may not perform in accordance with contractual terms. Credit risk results from extending credit to customers, purchasing securities, and entering into certain off-balance sheet loan funding commitments. Our primary credit risk is directly related to our loan portfolio. We use our credit policy and disciplined approach to evaluate the adequacy of our allowance for credit 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, 2022, filed with the SEC. Other than the risk factors set forth below, there have been no material changes in the risk factors disclosed in our Annual Report on Form 10-K for December 31, 2022.

Adverse developments affecting the financial services industry.

Recent bank failures involving Silicon Valley Bank and Signature Bank have resulted in negative market volatility, especially in the financial services sector, which could continue to negatively impact the market price of our stock in the foreseeable future. The failures have also adversely impacted customer confidence in the soundness of smaller community and regional banks. In response, customers may choose to maintain deposits with larger financial institutions or invest their excess cash elsewhere. Significant withdrawals of deposits could stress our liquidity, funding capacity, earnings, and capital. These factors could also limit our access to capital markets and/or significantly increase the pricing of such sources. In addition, these events may result in adverse changes in laws or regulations that govern our operations.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(a) Not applicable.

(b) Not applicable.

(c) During the three months ended June 30, 2023, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading agreement,” as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

Number	Description
2.1	Agreement and Plan of Reorganization, dated October 20, 2021, by and between Business First Bancshares, Inc., and Texas Citizens Bancorp, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on October 21, 2021).
3.1	Restated Articles of Incorporation of Business First Bancshares, Inc., adopted October 27, 2022 (incorporated by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, filed by Business First Bancshares, Inc. on November 3, 2022).
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).
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).
4.2	Form of Series A Preferred Stock (incorporated by reference to Exhibit A to Exhibit 10.1 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on September 1, 2022).
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.

August 3, 2023

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

August 3, 2023

/s/ Gregory Robertson
Gregory Robertson
Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

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

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

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2023

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

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Gregory Robertson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2023

/s/ Gregory Robertson
Gregory Robertson
Chief Financial Officer

EXHIBIT 32.1

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

As adopted pursuant to

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Business First Bancshares, Inc. ("Business First") for the three month period ended June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, David R. Melville, III, as President and Chief Executive Officer of Business First, and Gregory Robertson, as Chief Financial Officer of Business First, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

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

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

Date: August 3, 2023

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

/s/ Gregory Robertson
Gregory Robertson
Chief Financial Officer