UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016
Commission file number: 333-200112

BUSINESS FIRST BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Louisiana	**20-5340628**
(State of incorporation or organization)	(I.R.S. Employer Identification Number)
500 Laurel Street, Suite 101 **Baton Rouge, Louisiana**	**70801**
(Address of principal executive offices)	(Zip code)

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

Securities registered under Section 12(b) of the Exchange Act: None
Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (i) 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, and (ii) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

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

There is no established public trading market for the registrant's common stock. As of March 10, 2017, there were 6,914,179 outstanding shares of the registrant's common stock, $1.00 par value per share.

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NOTE: When we refer in this Report to "we," "our," "us," "Business First" and the "Company," we are referring to Business First Bancshares, Inc., unless the context indicates otherwise.

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K, or the "Report," contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). These forward-looking statements include statements that reflect the current views of our senior management with respect to our financial performance and future events with respect to our business and the banking industry in general. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "will continue," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," and similar expressions of a future or forward-looking nature. These statements involve estimates, assumptions and risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements.

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

- changes in the strength of the United States 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;
- market declines in industries to which we have exposure, such as the decline in crude oil prices that impact certain of our borrowers and investments that operate within, or are backed by collateral associated with, the oil and gas industry;
- changes in interest rates and market prices, which could reduce our net interest margins, asset valuations and expense expectations;
- changes in the levels of loan prepayments and the resulting effects on the value of our loan portfolio;
- increased competition for deposits and loans adversely affecting rates and terms;
- increased credit risk in our assets and increased operating risk caused by a material change in commercial, consumer and/or real estate loans as a percentage of the total loan portfolio;
- the failure of assumptions underlying the establishment of and provisions made to our allowance for credit losses;
- changes in the availability of funds resulting in increased costs or reduced liquidity;
- a determination or downgrade in the credit quality and credit agency ratings of the securities in our securities portfolio;
- increased asset levels and changes in the composition of assets and the resulting impact on our capital levels and regulatory capital ratios;
- the loss of senior management or operating personnel and the potential inability to hire qualified personnel at reasonable compensation levels;
- legislative or regulatory developments, including changes in laws and regulations concerning taxes, banking, securities, insurance and other aspects of the financial securities industry, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and the extensive rule making required to be undertaken by various regulatory agencies under the Dodd-Frank Act;
- further government intervention in the U.S. financial system;
- changes in statutes and government regulations or their interpretations applicable to us, including changes in tax requirements and tax rates;

- acts of terrorism, an outbreak of hostilities or other international or domestic calamities, weather, including the Historic Louisiana Flood of 2016, or other acts of God and other matters beyond our control; and

- and other risks and uncertainties listed from time to time in our reports and documents filed with the SEC.

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

PART I

ITEM 1. Business.

General

We are a registered bank holding company headquartered in Baton Rouge, Louisiana. We were incorporated on July 20, 2006 to serve as a bank holding company under the Bank Holding Company Act of 1956 (the "BHC Act") for our wholly-owned subsidiary, Business First Bank. We became the parent company of Business First Bank on April 1, 2007, and we currently own all of the outstanding shares of the capital stock of Business First Bank. As of December 31, 2016, on a consolidated basis, we had total assets of $1.1 billion, total loans of $811.1 million, total deposits of $932.8 million and shareholders' equity of $113.6 million.

Business First Bank is a Louisiana state non-member bank that was established in February of 2006. Business First Bank serves the state of Louisiana with sixteen banking centers, with offices located in the Louisiana cities of Baton Rouge, Brusly, Covington, Denham Springs, Erwinville, Gonzales, Houma, Lafayette, Lake Charles, Port Allen, Shreveport and Zachary. Business First Bank also has a Loan Production Office in the New Orleans Metro area and a Wealth Solutions Office in Thibodaux. Business First is organized into eight markets, each of which is led by an experienced market president and bankers who are all involved in the community and industry. Business First Bank's principal office is located in Baton Rouge, Louisiana.

Business First Bank offers a full range of banking services, including commercial and consumer banking. As of December 31, 2016, Business First Bank had total assets of $1.1 billion, total loans of $811.1 million, total deposits of $932.8 million and shareholders' equity of $116.0 million.

Our principal executive office is located at Business First Bank, 500 Laurel Street, Suite 101, Baton Rouge, Louisiana 70801. Our telephone number is (225) 248-7600 and our website address is www.b1bank.com.

Our Business Strategy

Our mission is to be the financial institution of choice for Louisiana enterprises and their owners and employees. To achieve this mission, we concentrate our resources on two fronts: convenience-enhancing technology and products, and recruitment, retention and empowerment of world class employees. We believe a bank should be measured by the value it adds to its customer's business processes.

The focus of our strategy has been, and continues to be, the establishment and enhancement of an attractive commercial banking franchise by maximizing long-term shareholder value through growth in our loans, investments, deposits and net income in a manner consistent with safe, sound and prudent banking practices while providing personalized customer service consistent with the needs of small- and mid-sized businesses, their owners and employees. To accomplish this goal, we utilize the following business strategy:

- Offering competitive products and services at fair prices to expand loan and deposit market share and increase interest and non-interest income;
- Providing high quality personal service delivered by skilled and experienced professionals who have a long-term commitment to the communities in which we conduct business;
- Enhancing the banking options available to customers by offering a wide array of financial products with the latest technology; and
- Maintaining asset quality and control operating expense.

We focus on providing private banking services primarily to small businesses and professionals. Rather than attempt to compete for customers with larger financial institutions on a transaction-by-transaction basis, we work to build robust, lasting partnerships with our customers.

By locating in eight metropolitan areas and decentralizing as much decision-making authority as sound banking practices will permit, we endeavor to capture both the stability of geographic diversification within Louisiana and the loyalties of a customer base that only a locally-owned community bank can provide. Each market we serve has a local president and our director's loan committee is comprised of community leaders who have a stake in the institution. We believe that one of our greatest competitive advantages is the depth of our statewide network of entrepreneurial directors.

Consistent with our focus on service, we have invested heavily in people and technology, not just brick and mortar infrastructure. We operate with a limited number of more experienced personnel, while also limiting the number of our offices, providing universal ATM and internet account access, digital deposits, and personalized, flexible, name-recognizing service.

We also endeavor to serve our constituent communities in unique ways—hosting non-profit board meetings, for example, or encouraging our employees to participate in financially-centered volunteer efforts, whether that be serving as board members themselves or participating in school-based educational activities. Through these activities, we strive to foster relationships with community leaders and a reputation of positive involvement in our communities.

Expansion

With the exception of our March 31, 2015 acquisition of American Gateway Financial Corporation ("AGFC") and its subsidiary, American Gateway Bank, we have historically grown organically by targeting markets in Louisiana that we believe provide attractive banking opportunities. Within these markets, we engage a local advisory board and hire local management. The purpose of these advisors and management is to build our banking franchise within their respective markets. We believe this structure provides many of the benefits of smaller, locally-owned banks while permitting us to serve multiple markets.

While we continue to prioritize organic growth, we also seek to capitalize upon other opportunities as they arise. In particular, we will consider opportunities such as the 2015 acquisition of AGFC, which has enhanced our core deposits and provided cost savings through economies of scale. Although we do not currently have any definitive expansion plans, we routinely explore various acquisition and expansion opportunities as they may arise from time to time. We will continue to evaluate growth opportunities and may add other markets to our geographic footprint as opportunities arise.

Products and Services

We are a full-service financial services company with a focus on small- to mid-sized businesses, their officers and employees. We satisfy our commercial and retail customers' banking needs with an encompassing range of financial services.

Business First Bank is an independent financial institution that is engaged in substantially all of the business operations customarily conducted by financial institutions in Louisiana. We offer, among other products, checking, savings and money market accounts, certificates of deposit, commercial and consumer loans, mortgage loans, real estate loans, and other installment and term loans. In addition, Business First Bank offers our customers wealth management products, drive-through banking facilities, automated teller machines, night depository, personalized checks, credit cards, debit cards, internet banking, electronic funds transfers through ACH services, domestic and foreign wire transfers, traveler's checks, cash management, vault services, loan and deposit sweep accounts, and lock box services.

Subsidiaries

We have three wholly-owned subsidiaries. Business First Bank is a direct, wholly-owned subsidiary of Business First. Business First Insurance, LLC and American Gateway Insurance Agency, LLC are wholly-owned subsidiaries of Business First Bank, and are, therefore, indirect wholly-owned subsidiaries of Business First. Business First Insurance, LLC and American Gateway Insurance Agency, LLC are currently inactive, and do not engage in any material business activities.

Competition

We compete with several local and regional commercial banks, thrifts, credit unions and mortgage companies for deposits, loans, and other banking-related financial services. There is intense competition in our market areas from other financial institutions as well as other "non-bank" companies that engage in similar activities. Some of our competitors are not subject to the degree of regulatory review and restrictions that apply to us. In addition, we must compete with much larger financial institutions that have greater financial resources than we do, and that compete aggressively for market share. These competitors attempt to gain market share through their financial product mix, pricing strategies and banking center locations. We also compete with insurance companies, savings banks, consumer finance companies, investment banking firms, brokerage houses, mutual fund managers, investment advisors, and credit unions. Retail establishments compete for loans by offering credit cards and retail installment contracts for the purchase of goods and merchandise.

We anticipate that competition from both bank and non-bank entities will continue to grow. Accordingly, we build and implement strategic plans to address competitive factors in the various markets we serve. We have been able to compete effectively with other financial institutions by emphasizing customer service and local office decision-making, by establishing long-term customer relationships and building customer loyalty, and by providing products and services designed to address the specific needs of our customers.

Employees

As of December 31, 2016, we had 208 full-time equivalent employees, 80 of whom are officers of Business First Bank. We are committed to hiring and retaining high quality employees to execute our strategic plan, and we consider our relations with employees to be very good.

Supervision and Regulation

General

The U.S. banking industry is highly regulated under federal and state law. Banking laws, regulations and policies affect our operations and those of our subsidiaries.

As a bank holding company, we are subject to inspection, examination, supervision and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Business First Bank is subject to extensive regulation and examination by the Louisiana Office of Financial Institutions (the "Louisiana OFI") and the Federal Deposit Insurance Corporation ("FDIC").

Statutes, regulations and policies limit the activities in which we may engage and how we conduct certain permitted activities. The system of supervision and regulation applicable to us and our subsidiaries establishes a comprehensive framework for our respective operations and is intended primarily for the protection of the FDIC's Deposit Insurance Fund, Business First Bank's depositors and the public, rather than our shareholders or creditors. Further, the bank regulatory system imposes reporting and information collection obligations. We incur significant costs relating to compliance with these laws and regulations. Banking statutes, regulations and policies are continually under review by Congress and state legislatures and regulatory agencies, and a change in them, including changes in how they are interpreted or implemented, could have a material adverse effect on our business, financial condition and results of operations.

The material statutory and regulatory requirements that are applicable to us and to Business First Bank are summarized below. This description is not intended to describe all laws and regulations applicable to us and our subsidiaries, and the description is qualified in its entirety by reference to the full text of the statutes, regulations, policies, interpretive letters and other written guidance that are described herein.

Business First Bancshares, Inc.

We are a bank holding company registered under the BHC Act, and we are subject to supervision, regulation and examination by the Federal Reserve. The BHC Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Banking statutes, regulations and policies could restrict our ability to diversify into other areas of financial services, acquire depository institutions and make distributions or pay dividends on our equity securities. They may also require us to provide financial support to any bank that we control, maintain capital balances in excess of those desired by management and pay higher deposit insurance premiums as a result of a general deterioration in the financial condition of Business First Bank.

Business First Bank

Business First Bank is a commercial bank chartered under the laws of the State of Louisiana and it is not a member of the Federal Reserve. In addition, its deposits are insured to the maximum extent permitted by law by the FDIC. As such, Business First Bank is subject to extensive regulation and examination by the Louisiana OFI and the FDIC. The federal and state laws and regulations which are applicable to Business First Bank regulate, among other things, the scope of its business, its investments, its reserves against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for certain loans. In addition to the impact of such regulations, commercial banks are affected significantly by the actions of the Federal Reserve in connection with its economic policy.

Broad Supervision and Enforcement Powers

A principal objective of the U.S. bank regulatory system is to protect depositors by ensuring the financial safety and soundness of banking organizations. To that end, the banking regulators have broad regulatory, examination and enforcement authority. The regulators regularly examine the operations of banking organizations. In addition, banking organizations are subject to periodic reporting requirements.

The regulators have various remedies available if they determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of a banking organization's operations are unsatisfactory. The regulators may also take action if they determine that the banking organization or its management is violating or has violated any law or regulation. The regulators have the power to, among other things:

- enjoin "unsafe or unsound" practices;
- require affirmative actions to correct any violation or practice;
- issue administrative orders that can be judicially enforced;
- direct increases in capital;
- direct the sale of subsidiaries or other assets;
- limit dividends and distributions;
- restrict growth;
- assess civil monetary penalties;
- remove officers and directors; and
- terminate deposit insurance.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the institution's regulatory agency. Engaging in unsafe or unsound practices or failing to comply with applicable laws, regulations and supervisory agreements could subject us and our subsidiaries or their officers, directors and institution-affiliated parties to the remedies described above and other sanctions.

The Dodd-Frank Act

On July 21, 2010, the Dodd-Frank Act became law. The Dodd-Frank Act is having a broad impact on the financial services industry, and imposes significant regulatory and compliance requirements, including the designation of certain financial companies as systemically important financial companies, the changing roles of credit rating agencies, the imposition of increased capital, leverage, and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Additionally, the Dodd-Frank Act establishes a new framework of authority to conduct systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies.

The following items provide a brief description of certain provisions of the Dodd-Frank Act that are most relevant to us and to Business First Bank.

- *Source of strength*. Under Federal Reserve policy, bank holding companies have historically been required to act as a source of financial and managerial strength to each of their banking subsidiaries. The Dodd-Frank Act codified this policy as a statutory requirement. The Dodd-Frank Act requires all companies, including bank holding companies that directly or indirectly control an insured depository institution, to serve as a source of strength for the institution. Under this requirement, in the future we could be required to provide financial assistance to Business First Bank should it experience financial distress.

- *Consumer Financial Protection Bureau*. The Dodd-Frank Act created the Consumer Financial Protection Bureau ("CFPB") as a new, independent regulatory agency. The CFPB is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws governing the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes governing products and services offered to bank and thrift consumers. For banking organizations with assets of $10 billion or more, the CFPB has exclusive rule making and examination, and primary enforcement authority under federal consumer financial laws. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB. Compliance with any such new regulations would increase our cost of operations.

- *Mortgage loan origination rules*. The Dodd-Frank Act authorized the CFPB to establish certain minimum standards for the origination of residential mortgages, including requirements for lenders to affirmatively determine that their borrowers have the ability to repay their mortgage loans. Under the Dodd-Frank Act, financial institutions may not make a residential mortgage loan unless they make a "reasonable and good faith determination" that the consumer has a "reasonable ability" to repay the loan. The Dodd-Frank Act allows borrowers to bring civil claims and raise certain defenses to foreclosure if the lender does not make an appropriate ability-to-repay determination. The CFPB's rules, however, provide a full or partial safe harbor from such liability and defenses for loans that are "qualified mortgages." The ability-to-repay rule is just one among many of the CFPB's new rules that will affect origination, disclosure and servicing in connection with consumer mortgages. Many of the CFPB's new rules governing mortgage loan origination became effective in January of 2014. Additional regulations revising disclosure and timing requirements in connection with mortgage loan origination became effective in October of 2015. Compliance with all of the CFPB's new mortgage rules will increase our cost of operations.

- *Deposit insurance*. The Dodd-Frank Act made permanent the increased $250,000 deposit insurance limit for insured deposits. Amendments to the Federal Deposit Insurance Act ("FDI Act") also revised the assessment base against which an insured depository institution's deposit insurance premiums paid to the Deposit Insurance Fund of the FDIC will be calculated. Under the amendments, the assessment base is no longer the institution's deposit base, but rather its average consolidated total assets less its average tangible equity. Additionally, the Dodd-Frank Act made changes to the minimum designated reserve ratio of the Deposit Insurance Fund, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. Several of these provisions may impact the FDIC deposit insurance premiums paid by Business First Bank.

- *Transactions with affiliates and insiders*. The Dodd-Frank Act generally enhanced the restrictions on transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions" and clarification regarding the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution's board of directors.

- *Corporate governance*. The Dodd-Frank Act addresses many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for compensation committee members; (3) requires companies listed on national securities exchanges to adopt incentive-based compensation clawback policies for executive officers and (4) provides the SEC with authority to adopt proxy access rules that would allow shareholders of publicly traded companies to nominate candidates for election as a director and have those nominees included in a company's proxy materials. For so long as we are an emerging growth company, we may take advantage of the provisions of the JOBS Act allowing us to not seek a non-binding advisory vote on executive compensation or golden parachute arrangements, but we will remain subject to many of the other provisions of the Dodd-Frank Act relating to investor protection and corporate governance.

The requirements of the Dodd-Frank Act are in the process of being implemented over time and most will be subject to regulations implemented over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear. Further, the Trump administration issued an executive order on February 3, 2017, outlining a number of "Core Principles" of regulation of the industry and directing the Secretary of the Treasury to submit a report by June 3, 2017, identifying any laws, rules or regulations (including those promulgated under the auspices of the Dodd-Frank Act) that are determined to be inconsistent with those principles. Changes resulting from further implementation of, changes to, or repeal of the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements could have a material adverse effect on our business, financial condition and results of operations.

Regulatory Notice and Approval Requirements Related to Control

Banking laws impose notice, approval and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. These laws include the BHC Act and the Change in Bank Control Act. Among other things, these laws require regulatory filings by a shareholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. The determination whether an investor "controls" a depository institution is based on all of the facts and circumstances surrounding the investment. As a general matter, a party is deemed to control a depository institution or other company if the party owns or controls 25% or more of any class of voting stock. Subject to rebuttal, a party may be presumed to control a depository institution or other company if the investor owns or controls 10% or more of any class of voting stock. Ownership by affiliated parties, or parties acting in concert, is typically aggregated for these purposes. If a party's ownership of Business First were to exceed certain thresholds, the investor could be deemed to "control" Business First for regulatory purposes. This could subject the investor to regulatory filings or other regulatory consequences.

In addition, except under limited circumstances, bank holding companies are prohibited from acquiring, without prior approval, (1) control of any other bank or bank holding company or all or substantially all the assets thereof or (2) more than 5% of the voting shares of a bank or bank holding company which is not already a subsidiary.

Branching

Louisiana law provides that a Louisiana state bank can establish a branch anywhere in Louisiana provided that the branch is approved in advance by the Louisiana OFI. The branch also must be approved by the FDIC. When considering whether to approve the establishment of a branch, the Louisiana OFI and the FDIC consider a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers. The Dodd-Frank Act permits insured state banks to engage in de novo interstate branching if the laws of the state where the new branch is to be established would permit the establishment of the branch if the branching bank were chartered by such state.

Limits on Transactions with Affiliates

Federal law restricts the amount and the terms of both credit and noncredit transactions (generally referred to as "covered transactions") between a bank and its nonbank affiliates. Covered transactions with any single affiliate may not exceed 10% of the capital stock and surplus of a bank, and covered transactions with all affiliates may not exceed, in the aggregate, 20% of a bank's capital stock and surplus. For a bank, capital stock and surplus refers to the bank's Tier 1 and Tier 2 capital, as calculated under the risk-based capital guidelines, plus the balance of the allowance for credit losses excluded from Tier 2 capital. A bank's transactions with all of its affiliates in the aggregate are limited to 20% of the foregoing capital. In addition, in connection with covered transactions that are extensions of credit, a bank may be required to hold collateral to provide added security to the bank and the types of permissible collateral may be limited. The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates, including an expansion of what types of transactions are covered transactions to include credit exposures related to derivatives, repurchase agreements and securities lending arrangements and an increase in the amount of time for which collateral requirements regarding covered transactions must be satisfied.

Loans to Insiders

Sections 22(g) and (h) of the Federal Reserve Act and its implementing regulation, Regulation O, place restrictions on loans by a bank to executive officers, directors and principal shareholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10.0% shareholder of a bank and certain of their related interests or insiders and insiders of affiliates, may not exceed, together with all other outstanding loans to such person and related interests, a bank's loans-to-one-borrower limit (generally equal to 15.0% of the institution's unimpaired capital and surplus). Section 22(h) also requires that loans to insiders and to insiders of affiliates be made on terms substantially the same as offered in comparable transactions to other persons, unless the loans are made pursuant to a benefit or compensation program that (1) is widely available to employees of the bank and (2) does not give preference to insiders over other employees of the bank. Section 22(h) also requires prior board of directors' approval for certain loans and the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

Depositor Preference

The FDI Act provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. Therefore, if an insured depository institution like Business First Bank fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, nondeposit creditors, including us, with respect to any extensions of credit they have made to such insured depository institution.

Dividend Restrictions

In 2016, our board of directors made the decision to commence payment of regular quarterly dividends; however, we are not required to pay dividends. Our shareholders are entitled to receive dividends out of legally available funds as and when declared by our board of directors, in their sole discretion.

As a Louisiana corporation, we are subject to certain restrictions on dividends under the Louisiana Business Corporation Act. Generally, under Louisiana law, we may not pay a dividend if (i) after giving effect to the dividend, we would not be able to pay our debts as they become due in the usual course of business, (ii) after giving effect to the dividend, our total assets would be less than the sum of our total liabilities plus the amount that would be needed, if we were to be dissolved at the time of the distribution, to satisfy any preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution, or (iii) the declaration or payment thereof would be contrary to any restrictions contained in our articles of incorporation. Also, as a bank holding company, we are required by the Federal Reserve to serve as a source of financial strength for Business First Bank. The Federal Reserve has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of dividends to shareholders unless its net income available has been sufficient to fully fund the dividends, and the prospective rate of earnings retention appears consistent with the bank holding company's capital needs, asset quality and overall financial condition.

We do not engage in separate business activities of a material nature. As a result, our ability to pay dividends depends upon the dividends received from Business First Bank. As a Louisiana state bank, Business First Bank's ability to pay dividends is restricted by certain laws and regulations. Under the Louisiana Banking Law, Business First Bank may not declare or pay cash or property dividends unless it has unimpaired surplus that equals or exceeds 50% of its outstanding capital stock. Business First Bank's unimpaired surplus may not be reduced below 50% as a result of the payment of any combination of cash or property dividends, or the purchase or redemption of any shares of its capital stock. In addition, Business First Bank must obtain the prior approval of the Louisiana Banking Commissioner to pay dividends to us if the total of all year-to-date cash or property dividends declared and paid by Business First Bank, when added to any amounts used by Business First Bank to redeem or purchase shares of its capital stock, would exceed the total of its year-to-date net income combined with its net income from the immediately preceding year, after deducting all of the following: (i) amounts paid or accrued for the payments of cash dividends, (ii) the value of all property paid in dividends, and (iii) amounts paid or accrued to redeem or purchase shares of Business First Bank's capital stock over the calculation period.

In addition to Louisiana law restrictions on Business First Bank's ability to pay dividends, under FDICIA, Business First Bank may not pay any dividend if the payment of the dividend would cause Business First Bank to become undercapitalized or if Business First Bank is "undercapitalized." The FDIC may further restrict the payment of dividends by requiring that Business First Bank maintain a higher level of capital than would otherwise be required to be "adequately capitalized" for regulatory purposes. Moreover, if, in the opinion of the FDIC, Business First Bank is engaged in an unsound practice (which could include the payment of dividends), the FDIC may require, generally after notice and hearing, that Business First Bank cease such practice. The FDIC has indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe banking practice. Moreover, the FDIC has also issued policy statements providing that insured depository institutions generally should pay dividends only out of current operating earnings. Under regulatory capital guidelines, Business First Bank must maintain a Tier 1 capital to adjusted average total assets ratio of at least 4.0%, a Tier 1 capital to risk weighted assets ratio of at least 6.0%, and a total risk based capital to risk weighted assets ratio of at least 8.0%. As of December 31, 2016, Business First Bank had a ratio of Tier 1 capital to adjusted average total assets of 9.91%, a ratio of Tier 1 capital to risk weighted assets of 11.07% and a ratio of total risk based capital to risk weighted assets of 11.89%.

The Dodd-Frank Act and Basel III (described below) impose additional restrictions on the ability of banking institutions to pay dividends.

Regulatory Capital Requirements

The Federal Reserve monitors our capital adequacy, on a consolidated basis, and the FDIC and the Louisiana OFI monitor the capital adequacy of Business First Bank. The bank regulators use a combination of risk-based guidelines and a leverage ratio to evaluate capital adequacy. The risk-based capital guidelines applicable to us and our bank are based on the Basel Committee's December 2010 final capital framework, known as Basel III, as implemented by the federal bank regulators. The risk-based guidelines are intended to make regulatory capital requirements sensitive to differences in credit and market risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to weighted risk categories, and capital is classified in one of the following tiers depending on its characteristic:

Common Equity Tier 1 ("CET1") Capital. CET1 capital generally includes common equity, surplus and retained earnings less goodwill, most intangible assets and certain other assets. The capital rules require bank holding companies and banks to include Accumulated Other Comprehensive Income ("AOCI") into CET1 unless the bank and bank holding company use a one-time election to exclude AOCI from its regulatory capital metrics on January 1, 2015. We elected to exclude AOCI from CET1.

Tier 1 (Core) Capital. Tier 1 capital generally includes CET1 and qualifying trust preferred securities at the holding company level, less goodwill, most intangible assets and certain other assets.

Tier 2 (Supplementary) Capital. Tier 2 capital generally includes qualifying subordinated debt and a limited amount of allowances for loan and lease losses.

Bank holding companies and banks are also currently required to comply with minimum leverage requirements, measured based on the ratio of a bank holding company's or a bank's, as applicable, Tier 1 capital to adjusted quarterly average total assets (as defined for regulatory purposes). These requirements generally necessitate a minimum Tier 1 leverage ratio of 4% for all bank holding companies and banks. To be considered "well capitalized" under the regulatory framework for prompt corrective action, Business First Bank must maintain minimum Tier 1 leverage ratios of at least 5%. See *"—Prompt Corrective Action Framework."*

Basel III and the Capital Rules. In July 2013, the federal bank regulators approved final rules, or the Capital Rules, implementing the Basel Committee's December 2010 final capital framework for strengthening international capital standards, known as Basel III, and various provisions of the Dodd-Frank Act. The Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and banks, including us and Business First Bank, compared to the previous risk-based capital rules. The Capital Rules revise the components of capital and address other issues affecting the numerator in regulatory capital ratio calculations. The Capital Rules also address risk weights and other issues affecting the denominator in regulatory capital ratio calculations, including by replacing the existing risk-weighting approach derived from Basel I with a more risk-sensitive approach based, in part, on the standardized approach adopted by the Basel Committee in its 2004 capital accords, known as Basel II. The Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal bank regulators' rules. Subject to a phase-in period for various provisions, the Capital Rules became effective for us and for Business First Bank beginning on January 1, 2015.

Under the Basel III Capital Rules, the minimum capital ratios are (i) 4.5% CET1 to risk-weighted assets, (ii) 6% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets and (iii) 8% total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets.

The current capital rules also include a capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is composed entirely of CET1, on top of these minimum risk-weighted asset ratios. In addition, the Capital Rules provide for a countercyclical capital buffer applicable only to certain covered institutions. We do not expect the countercyclical capital buffer to be applicable to us or to Business First Bank. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a three-year period (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019). When fully phased-in, the Capital Rules will require us, and Business First Bank, to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of: (i) 7.0% CET1 to risk-weighted assets, (ii) 8.5% Tier 1 capital to risk-weighted assets, and (iii) 10.5% total capital to risk-weighted assets.

The Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, certain deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015, and will be phased in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The Capital Rules also generally preclude certain hybrid securities, such as trust preferred securities, from being counted as Tier 1 capital for most bank holding companies. However, bank holding companies such as us who had less than $15 billion in assets as of December 31, 2009 (and who continue to have less than $15 billion in assets) are permitted to include trust preferred securities issued prior to May 19, 2010 as Additional Tier 1 capital under the Capital Rules.

The Capital Rules also prescribed a new standardized approach for risk weightings that expanded the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0%, for U.S. government and agency securities, to 600%, for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

With respect to Business First Bank, the Capital Rules also revised the prompt corrective action regulations pursuant to Section 38 of the FDI Act. See *"—Prompt Corrective Action Framework."*

We believe that, as of December 31, 2016, we and Business First Bank would meet all capital adequacy requirements under the Capital Rules on a fully phased-in basis as if such requirements were then in effect.

Liquidity Requirements

Historically, the regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio, or LCR, is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio, or NSFR, is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incentivize banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source.

In September 2015, the federal bank regulators approved final rules implementing the LCR for advanced approaches banking organizations (i.e., banking organizations with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance sheet foreign exposure) and a modified version of the LCR for bank holding companies with at least $50 billion in total consolidated assets that are not advanced approach banking organizations, neither of which would apply to us or Business First Bank. The Federal Reserve and other federal bank regulatory agencies proposed rules to implement the NSFR in 2016, but those have not yet become final.

Prompt Corrective Action Framework

The FDI Act requires the federal bank regulators to take prompt corrective action in respect of depository institutions that fail to meet specified capital requirements. The FDI Act establishes five capital categories ("well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized"), and the federal bank regulators are required to take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions that are undercapitalized, significantly undercapitalized or critically undercapitalized. The severity of these mandatory and discretionary supervisory actions depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the FDI Act requires the regulator to appoint a receiver or conservator for an institution that is critically undercapitalized.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

The Capital Rules revised the current prompt corrective action requirements effective January 1, 2015 by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the previous 6%); and (iii) eliminating the provision that provided that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Capital Rules do not change the total risk-based capital requirement for any prompt corrective action category.

As of December 31, 2016, we and Business First Bank were well capitalized with Tier 1 capital ratios of 10.81% and 11.07%, respectively, total capital ratios of 11.63% and 11.89%, respectively, Tier 1 leverage ratios of 9.67% and 9.91%, respectively, and a CET1 ratio of 10.81% and 11.07%, respectively, as calculated under Basel III which went into effect on January 1, 2015. For more information on these financial measures, including reconciliations to our and Business First Bank's Tier 1 capital ratio, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."*

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal bank regulator. Under the FDI Act, in order for the capital restoration plan to be accepted by the appropriate federal banking agency, a bank holding company must guarantee that a subsidiary depository institution will comply with its capital restoration plan, subject to certain limitations. The bank holding company must also provide appropriate assurances of performance. The obligation of a controlling bank holding company under the FDI Act to fund a capital restoration plan is limited to the lesser of 5.0% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions and capital distributions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. Institutions that are undercapitalized or significantly undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions failing to submit or implement an acceptable capital restoration plan are subject to appointment of a receiver or conservator.

Reserve Requirements

Pursuant to regulations of the Federal Reserve, all banks are required to maintain average daily reserves at mandated ratios against their transaction accounts. In addition, reserves must be maintained on certain nonpersonal time deposits. These reserves must be maintained in the form of vault cash or in an account at a Federal Reserve Bank.

Brokered Deposits

The FDI Act restricts the use of brokered deposits by certain depository institutions. Under the applicable regulations, (i) a well-capitalized insured depository institution may solicit and accept, renew or roll over any brokered deposit without restriction, (ii) an adequately capitalized insured depository institution may not accept, renew or roll over any brokered deposit unless it has applied for and been granted a waiver of this prohibition by the FDIC, and (iii) an undercapitalized insured depository institution may not accept, renew or roll over any brokered deposit. The FDIC may, on a case-by-case basis and upon application by an adequately capitalized insured depository institution, waive the restriction on brokered deposits upon a finding that the acceptance of brokered deposits does not constitute an unsafe or unsound practice with respect to such institution. A depository institution that is adequately capitalized and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates.

Concentrated Commercial Real Estate Lending Guidance

The federal banking agencies, including the FDIC, have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (1) total reported loans for construction, land development and other land represent 100% or more of total capital or (2) total reported loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development and other land represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Owner occupied commercial real estate loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address the following key elements including: board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending.

Examination and Examination Fees

The FDIC periodically examines and evaluates state non-member banks. Based on such an evaluation, Business First Bank, among other things, may be required to revalue its assets and establish specific reserves to compensate for the difference between Business First Bank's assessment and that of the FDIC. The Louisiana OFI also conducts examinations of state banks but may accept the results of a federal examination in lieu of conducting an independent examination. In addition, the FDIC and Louisiana OFI may elect to conduct a joint examination. The Louisiana OFI charges fees to recover the costs of examining Louisiana chartered banks. The FDIC assesses fees in the form of deposit insurance premiums (discussed below). The Dodd-Frank Act provides various agencies with the authority to assess additional supervision fees.

Deposit Insurance Assessments

As an FDIC-insured bank, Business First Bank must pay deposit insurance assessments to the FDIC based on its average total assets minus its average tangible equity. As an institution with less than $10 billion in assets, Business First Bank's assessment rates are based on its risk classification (*i.e.*, the level of risk it poses to the FDIC's deposit insurance fund). Institutions classified as higher risk pay assessments at higher rates than institutions that pose a lower risk. For institutions with $10 billion or more in assets, the FDIC uses a performance score and a loss-severity score that are used to calculate an initial assessment rate. In calculating these scores, the FDIC uses a bank's capital level and regulatory supervisory ratings and certain financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations. In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances.

In recent years, the FDIC's deposit insurance fund has been underfunded, and the FDIC has raised assessment rates and imposed special assessments on certain institutions during recent years to raise funds. Under the Dodd-Frank Act, the minimum designated reserve ratio for the deposit insurance fund is 1.35% of the estimated total amount of insured deposits. In October 2010, the FDIC adopted a restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

Under the FDI Act, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Continued action by the FDIC to replenish the Deposit Insurance Fund as well as changes contained in the Dodd-Frank Act may result in higher assessment rates. Business First Bank may be able to pass part or all of this cost on to its customers, including in the form of lower interest rates on deposits or fees to some depositors, depending on market conditions.

Permitted Activities and Investments by Financial Holding Companies

The BHC Act generally prohibits a financial holding company from engaging, directly or indirectly, in activities other than banking or managing or controlling banks, except for activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

Activities that the Federal Reserve Board has found to be so closely related to banking as to be a proper incident to the business of banking include:

- factoring accounts receivable;
- making, acquiring, brokering or servicing loans and usual related activities;
- leasing personal or real property;
- operating a nonbank depository institution, such as a savings association;
- trust company functions;
- financial and investment advisory activities;
- conducting discount securities brokerage activities;

- underwriting and dealing in government obligations and money market instruments;
- providing specified management consulting and counseling activities;
- performing selected data processing services and support services;
- acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- performing selected insurance underwriting activities.

Provisions of the Gramm-Leach-Bliley Act expanded the permissible activities of a financial holding company that qualifies as and elects to become a financial holding company. Under the regulations implementing the Gramm-Leach-Bliley Act, a financial holding company may engage in additional activities that are "financial in nature" or incidental or complementary to financial activity. Among other things, to qualify as a financial holding company, all of the subsidiary banks controlled by the financial holding company must be and remain at all times "well-capitalized" and "well-managed." We are not currently a financial holding company.

Privacy and Security

Federal law establishes a minimum federal standard of financial privacy by, among other provisions, requiring banks to adopt and disclose privacy policies with respect to consumer information and setting forth certain rules with respect to the disclosure to third parties of consumer information. Business First Bank has adopted and disseminated privacy policies pursuant to applicable law. Regulations adopted under federal law set standards for protecting the security, confidentiality and integrity of customer information, and require notice to regulators, and in some cases to customers, in the event of security breaches. A number of states have also adopted statutes concerning financial privacy and requiring notification of security breaches.

Anti-Money Laundering Requirements

Under federal law, including the Bank Secrecy Act and the PATRIOT Act, certain types of financial institutions, including insured depository institutions, must maintain anti-money laundering programs that include established internal policies, procedures and controls, a designated compliance officer, an ongoing employee training program and testing of the program by an independent audit function. Among other things, these laws are intended to strengthen the ability of U.S. law enforcement agencies and intelligence communities to work together to combat terrorism on a variety of fronts. Financial institutions are prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence, customer identification and recordkeeping, including in their dealings with non-U.S. financial institutions and non-U.S. customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution's anti-money laundering compliance when considering regulatory applications filed by the institution, including applications for banking mergers and acquisitions. The regulatory authorities have imposed "cease and desist" orders and civil money penalty sanctions against institutions found to be violating these obligations.

Office of Foreign Asset Control, or the OFAC, is responsible for helping to insure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various executive orders by the President of the United States and acts of Congress. OFAC publishes lists of persons, organizations and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If we or Business First Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, we or Business First Bank must freeze or block such account or transaction, file a suspicious activity report and notify the appropriate authorities.

Consumer Laws and Regulations

Banks and other financial institutions are subject to numerous laws and regulations intended to protect consumers in their transactions with banks. These laws include, among others, laws regarding unfair and deceptive acts and practices and usury laws, as well as the federal consumer protection statutes set forth below. Many states and local jurisdictions have consumer protection laws analogous and in addition, to those listed below. These federal, state and local laws regulate the manner in which financial institutions deal with customers when taking deposits, making loans or conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general and civil or criminal liability.

Federal Laws Applicable to Credit Transactions. The loan operations of Business First Bank are also subject to federal laws and regulations applicable to credit transactions, including, among others, the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- the Real Estate Settlement Procedures Act, requiring lenders to give borrowers certain disclosures with respect to the origination and servicing of one-to-four family mortgage loans;
- Service Members Civil Relief Act, which amended the Soldiers' and Sailors' Civil Relief Act of 1940, governing the repayment terms of and property rights underlying, secured obligations of persons in military service;
- Military Lending Act, which provides expanded protections to active duty military members and their covered dependents on specific credit transactions; and
- the rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws and regulations, which continue to be extensively amended and revised.

Federal Laws Applicable to Deposit Operations. Among other laws and regulations, the deposit operations of Business First Bank are subject to the following federal laws and their related regulations:

- the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- the Electronic Funds Transfer Act, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- the Expedited Funds Availability Act, which standardizes hold periods for deposits and regulates financial institutions' use of deposit holds;
- Truth-in-Savings Act, which requires uniform disclosure of terms and conditions regarding interest and fees when giving out information on or opening a new savings account; and
- the rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws, which continue to be extensively amended and revised.

The Community Reinvestment Act

The Community Reinvestment Act, or the CRA, is intended to encourage banks to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations. The regulators examine banks and assign each bank a public CRA rating. The CRA then requires bank regulators to take into account the bank's record in meeting the needs of its community when considering certain applications by a bank, including applications to establish a branch or to conduct certain mergers or acquisitions. The Federal Reserve is required to consider the CRA records of a bank holding company's controlled banks when considering an application by the bank holding company to acquire a bank or to merge with another bank holding company.

When Business First applies for regulatory approval to make certain investments, the regulators will consider the CRA record of the target institution and Business First Bank. An unsatisfactory CRA record could substantially delay approval or result in denial of an application. The regulatory agency's assessment of the institution's record is made available to the public. The FDIC conducted its most recent CRA exam of Business First Bank in April 2014, and Business First Bank received an "Outstanding" rating.

In addition, federal law requires the disclosure of agreements reached with community groups that relate to the CRA, and contains various other provisions designed to improve the delivery of financial services to consumers while maintaining an appropriate level of safety in the financial services industry.

Federal Home Loan Bank System

Business First Bank is a member of the Dallas FHLB, which is one of the 12 regional FHLB's composing the FHLB system. Each FHLB provides a central credit facility primarily for its member institutions as well as other entities involved in home mortgage lending. Any advances from a FHLB must be secured by specified types of collateral. As a member of the FHLB of Dallas, Business First Bank is required to acquire and hold shares of capital stock in the FHLB of Dallas.

Changes in Laws, Regulations or Policies

Congress and state legislatures may introduce from time to time measures or take actions that would modify the regulation of banks or bank holding companies. In addition, federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. Such changes could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks and other financial institutions, all of which could adversely affect our investment opportunities and our assessment of how attractive such opportunities may be. We cannot predict whether potential legislation will be enacted and, if enacted, the effect that it or any implementing regulations would have on our business, financial condition or results of operations.

Effect on Economic Environment

The policies of regulatory authorities, including the monetary policy of the Federal Reserve, have a significant effect on the operating results of bank holding companies and their subsidiaries. Among the means available to the Federal Reserve to affect the money supply are open market operations in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid for deposits. Federal Reserve monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. We cannot predict the nature of future monetary policies and the effect of such policies on our business, financial condition or results of operations.

ITEM 1A. Risk Factors.

In evaluating our business, you should consider carefully the factors described below. The occurrence of one or more of these events could significantly and adversely affect our business, prospects, financial condition, results of operations and cash flows. You should also consider the cautionary statement regarding the use of forward-looking statements elsewhere in this Report.

Risks Relating to our Business

We may not be able to adequately measure and limit our credit risk, which could lead to unexpected losses.

The business of lending is inherently risky, including risks that the principal of or interest on any loan will not be repaid timely or at all, or that the value of any collateral supporting the loan will be insufficient to cover our outstanding exposure. These risks may be affected by the strength of the borrower's business sector and local, regional and national market and economic conditions. Our risk management practices, such as monitoring the concentration of our loans within specific industries and our credit approval practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of our loan portfolio. Finally, many of our loans are made to small and midsized businesses that may be less able to withstand competitive, economic and financial pressures than larger borrowers. A failure to effectively measure and limit the credit risk associated with our loan portfolio could have a material adverse effect on our business, financial condition and results of operations.

Our allowance for loan losses may prove to be insufficient to absorb losses inherent in our loan portfolio, which could have a material adverse effect on our financial condition and results of operations.

We maintain an allowance for loan losses that represents management's judgment of probable losses and risks inherent in our loan portfolio. As of December 31, 2016, our allowance for loan losses totaled $8.2 million, which represents approximately 1.01% of our total loans held for investment. The level of the allowance reflects management's continuing evaluation of general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels and adequacy of collateral. The determination of the appropriate level of the allowance for loan losses is inherently highly subjective and requires us to make significant estimates of and assumptions regarding current credit risks and future trends, all of which may undergo material changes. Inaccurate management assumptions, deterioration of economic conditions affecting borrowers, new information regarding existing loans, identification or deterioration of additional problem loans, acquisition of problem loans and other factors, both within and outside of our control, may require us to increase our allowance for loan losses. In addition, our regulators, as an integral part of their periodic examination, review our methodology for calculating, and the adequacy of, our allowance for loan losses and may direct us to make additions to the allowance based on their judgments about information available to them at the time of their examination. Further, if actual charge-offs in future periods exceed the amounts allocated to the allowance for loan losses, we may need additional provisions for loan losses to restore the adequacy of our allowance for loan losses. Finally, the measure of our allowance for loan losses is dependent on the adoption and interpretation of accounting standards. The Financial Accounting Standards Board recently issued a new credit impairment model, the Current Expected Credit Loss, or CECL model, which will become applicable to us on January 1, 2020, though we may choose to adopt CECL on January 1, 2019, or may be encouraged to by our regulators. CECL will require financial institutions to estimate and develop a provision for credit losses at origination for the lifetime of the loan, as opposed to reserving for incurred or probable losses up to the balance sheet date. Under the CECL model, credit deterioration would be reflected in the income statement in the period of origination or acquisition of the loan, with changes in expected credit losses due to further credit deterioration or improvement reflected in the periods in which the expectation changes. Accordingly, the CECL model could require financial institutions like the Bank to increase their allowances for loan losses. Moreover, the CECL model likely would create more volatility in our level of allowance for loan losses. If we are required to materially increase our level of allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

We rely heavily on our executive management team and other key employees, and an unexpected loss of their service could have a material adverse effect on our business, financial condition and results of operations.

Our success depends in large part on the performance of our key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management and other skilled employees. Competition for employees is intense, and the process of locating key personnel with the combination of skills and attributes required to execute our business plan may be lengthy. We may not be successful in retaining our key employees, and the unexpected loss of services of one or more of our key personnel could have a material adverse effect on our business given their skills, knowledge of the primary markets, years of industry experience and the difficulty of promptly finding qualified replacement personnel. If the services of any of our key personnel should become unavailable for any reason, we may not be able to identify and hire qualified persons on terms acceptable to us, or at all, which could have a material adverse effect on our business, financial condition and results of operations.

Our ability to retain bankers and recruit additional successful bankers is critical to the success of our business strategy, and any failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Our ability to retain and grow our loans, deposits and fee income depends upon the business generation capabilities, reputation and relationship management skills of our bankers. If we were to lose the services of any of our bankers, including successful bankers employed by banks that we may acquire, to a new or existing competitor or otherwise, we may not be able to retain valuable relationships and some of our customers could choose to use the services of a competitor instead.

Our growth strategy also relies on our ability to attract and retain additional profitable bankers. We may face difficulties in recruiting and retaining bankers of our desired caliber, including as a result of competition from other financial institutions. In particular, many of our competitors are significantly larger with greater financial resources, and may be able to offer more attractive compensation packages and broader career opportunities. Additionally, we may incur significant expenses and expend significant time and resources on training, integration and business development before we are able to determine whether a new banker will be profitable or effective. If we are unable to attract and retain successful bankers, or if our bankers fail to meet our expectations in terms of customer relationships and profitability, we may be unable to execute our business strategy, which could have a material adverse effect on our business, financial condition and results of operations.

We may fail to grow or manage our growth effectively, which could have a material adverse effect on our ability to successfully implement our business strategy.

We may not be able to sustain our historical rate of growth or continue to grow our business at all. Because of the uncertainty in the general economy and the government intervention in the credit markets, it may be difficult for us to continue our historical earnings growth as we continue to expand. Failure to grow or failure to manage our growth effectively could adversely affect our ability to successfully implement our business strategy, which could have a material adverse effect on our business, financial condition and results of operations.

Difficult market conditions and economic trends have adversely affected the banking industry and could have a material adverse effect on our business, financial condition and results of operations.

We are operating in a challenging and uncertain economic environment, including generally uncertain conditions nationally and locally in our industry and market. Although economic conditions have improved in recent years, financial institutions continue to be affected by depressed oil prices, volatility in the real estate market in some parts of the country, and uncertain regulatory and interest rate conditions. We retain direct exposure to the oil and gas markets, and also to the residential and commercial real estate market in Louisiana. Consequently, we are affected by related market conditions.

Our ability to assess the creditworthiness of customers and to estimate the losses inherent in our loan portfolio is made more complex by uncertain market and economic conditions. Our risk management practices, such as monitoring the concentration of our loans within specific industries and our credit approval practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of the loan portfolio. Another national economic recession or deterioration of conditions in our market could drive losses beyond those which are provided for in our allowance for loan losses and result in the following consequences:

- increases in loan delinquencies;
- increases in nonperforming assets and foreclosures;
- decreases in demand for products and services, which could adversely affect our liquidity position; and
- decreases in the value of the collateral securing our loans, especially real estate, which could reduce customers' borrowing power and repayment ability.

While economic conditions in Louisiana and the U.S. continue to show signs of recovery, there can be no assurance that these conditions will continue to improve. A continued decline in oil and gas prices or a resumption of declines in real estate values, volume of home sales and financial stress on borrowers as a result of the uncertain economic environment, including job losses, could have a material adverse effect on our borrowers and/or their customers, which could have a material adverse effect on our business, financial condition and results of operations.

A large portion of our loan portfolio is comprised of commercial loans secured by equipment or other collateral, the deterioration in value of which could increase our exposure to future probable losses.

As of December 31, 2016, approximately $213.1 million, or approximately 26.3% of our total loans held for investment, was comprised of commercial loans to businesses collateralized by general business assets including, among other things, accounts receivable, inventory and equipment. These commercial and industrial loans are typically larger in amount than loans to individual consumers and, therefore, have the potential for larger losses on an individual loan basis. Additionally, asset-based borrowers are often highly leveraged and have inconsistent historical earnings. Significant adverse changes in various industries could cause rapid declines in values and collectability associated with those business assets resulting in inadequate collateral coverage that may expose us to future losses. An increase in specific reserves and charge-offs related to our commercial and industrial loan portfolio could have a material adverse effect on our business, financial condition and results of operations.

The small to medium-sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could have a material adverse effect on our business, financial condition and results of operations.

We focus our business development and marketing strategy primarily on small to medium-sized businesses. Small to medium-sized businesses frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete, and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management skills, talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact the markets in which we operate and small to medium-sized businesses are adversely affected or our borrowers are otherwise harmed by adverse business developments, this, in turn, could have a material adverse effect on our business, financial condition and results of operations.

Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

As of December 31, 2016, $553.5 million, or 68.3% of our total loans held for investment, was comprised of loans with real estate as a primary or secondary component of collateral. As a result, adverse developments affecting real estate values in the state of Louisiana could increase the credit risk associated with our real estate loan portfolio. Real estate values in many Louisiana markets have experienced periods of fluctuation over the last five years. The market value of real estate can fluctuate significantly in a short period of time. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our banking markets could increase the credit risk associated with our loan portfolio, and could result in losses that adversely affect credit quality, financial condition, and results of operations. Negative changes in the economy affecting real estate values and liquidity in our market areas could significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses could have an adverse effect on our business, financial condition and results of operations. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan losses, which could have a material adverse effect on our business, financial condition and results of operations.

Our commercial real estate portfolio exposes us to credit risks that could be greater than the risks related to other types of loans.

As of December 31, 2016, approximately $424.4 million, or 52.3% of our loan portfolio is secured by commercial real estate. Commercial real estate loans typically involve repayment dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. The availability of such income for repayment may be adversely affected by changes in the economy or local market conditions. These loans expose a lender to greater credit risk than loans secured by other types of collateral because the collateral securing these loans is typically more difficult to liquidate due to the fluctuation of real estate values. Additionally, non-owner occupied commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Unexpected deterioration in the credit quality of our non-owner occupied commercial real estate loan portfolio could require us to increase our allowance for loan losses, which would reduce our profitability and could have a material adverse effect on our business, financial condition and results of operations.

Our business concentration in the State of Louisiana imposes risks and may magnify the consequences of any regional or local economic downturn affecting Louisiana, including any downturn in the real estate sector.

We conduct our operations exclusively in the State of Louisiana. As of December 31, 2016, the substantial majority of the loans in our loan portfolio were made to borrowers who live and/or conduct business in Louisiana and the substantial majority of our secured loans were secured by collateral located in the State of Louisiana. Accordingly, we are exposed to risks associated with a lack of geographic diversification. The economic conditions in Louisiana are highly dependent on the real estate sector as well as the technology, financial services, insurance, transportation, manufacturing and energy sectors. Any downturn or adverse development in these sectors, particularly the real estate and energy sectors in Louisiana, could have a material adverse impact on our business, financial condition and results of operations, and future prospects. Any adverse economic developments, among other things, could negatively affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosure losses on loans, and reduce the value of our loans. Any regional or local economic downturn that affects Louisiana, our existing or prospective borrowers, or property values in our market area may affect us and our profitability more significantly and more adversely than our competitors whose operations are less geographically focused.

Our portfolio contains many large loans, and deterioration in the financial condition of these large loans could have a material adverse impact on our asset quality.

Our growth over the past several years has been partially attributable to our ability to originate and retain relatively large loans given our asset size. As of December 31, 2016, our average loan size was approximately $329,000. Further, as of December 31, 2016, our 20 largest borrowing relationships ranged from approximately $9.0 million to $17.6 million (including unfunded commitments) and averaged approximately $11.9 million in total commitments and $8.5 million in principal balance, respectively. Along with other risks inherent in our loans, such as the deterioration of the underlying businesses or property securing these loans, the higher average size of our loans presents a risk to our lending operations. Because we have a large average loan size, if only a few of our largest borrowers become unable to repay their loan obligations as a result of economic or market conditions or personal circumstances, our nonperforming loans and our provision for loan losses could increase significantly, which could have a material adverse effect on our business, financial condition and results of operations.

Our lending limit may restrict our growth and prevent us from effectively implementing our business strategy.

We are limited in the amount we can loan to a single borrower by the amount of our capital. Generally, under applicable Louisiana law, we may lend up to 20% of our capital stock and surplus to any one borrower on an unsecured basis and up to 50% of our capital stock and surplus on a secured basis, when aggregated with all unsecured loans to such borrower. Based upon our current capital levels, the amount we may lend is significantly less than that of many of our competitors and may discourage potential borrowers who have credit needs in excess of our lending limit from doing business with us. We accommodate larger loans by selling participations in those loans to other financial institutions, but this strategy may not always be available. If we are unable to compete effectively for loans from our target customers, we may not be able to effectively implement our business strategy, which could have a material adverse effect on our business, financial condition and results of operations.

New lines of business or new products and services may subject us to additional risks.

From time to time, we may start-up or acquire new lines of business or offer new products and services within existing lines of business. There may be substantial risks and uncertainties associated with these endeavors. In developing and marketing new lines of business and/or new products or services, we may invest significant time and resources. Initial timelines for the introduction and development of new lines of business and/or new products or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition and results of operations.

A lack of liquidity could impair our ability to fund operations, which could have a material adverse effect on our business, financial condition and results of operations.

Liquidity is essential to our operations. We rely upon our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure we have adequate liquidity to fund our operations. An inability to raise funds through deposits, borrowings, the sale of our investment securities, the sale of loans, and other sources could have a substantial negative effect on our liquidity. Our most important source of funds is deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments such as money market funds, we would lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income.

Other primary sources of funds for us consist of cash flows from operations, and maturities and sales of investment securities. Additional liquidity is provided by our ability to borrow from the Federal Reserve Bank of Atlanta and the Federal Home Loan Bank of Dallas ("FHLB"). We also may borrow funds from third-party lenders, such as other financial institutions. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Our access to funding sources could also be affected by a decrease in the level of our business activity as a result of a downturn in the economy in our primary market area or by one or more adverse regulatory actions against us.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity and could, in turn, have a material adverse effect on our business, financial condition and results of operations.

We may face risks with respect to future acquisitions.

When we attempt to expand our business in Louisiana or other states through mergers and acquisitions, we seek targets with a similar culture, have experienced management, and possess either significant market presence or have potential for improved profitability through economies of scale or expanded services. Merger and acquisition activity involves various risks, in addition to the general risks associated with our growth plans, including, among other things:

- the time and costs associated with identifying and evaluating potential acquisition and merger targets;

- inaccuracies in the judgments and estimates used to evaluate the credit, operations, management and market risks associated with the target institution;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- the diversion of management's attention to the negotiation of a transaction; and
- risks associated with integrating the operations and personnel of the target in a manner that enables growth opportunities and does not significantly disrupt existing customer relationships or cause us to lose customers.

With respect to the integration of a target institution, it is possible that the business combination could ultimately result in the loss of key employees or disruption of our ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers and employees or to achieve the expected benefits of the acquisition. As with any merger of banking institutions, there also may be business disruptions that cause us to lose customers or cause customers to take their deposits out of our Bank. The continued success of our combined company will depend in large part on our ability to continue to integrate the two businesses, business models and cultures. If we are not able to fully integrate our operations or if we are unable to do so in a timely manner, the expected benefits of the merger may not be realized.

We expect to continue to evaluate merger and acquisition opportunities that are presented to us and conduct due diligence activities related to possible transactions with other financial institutions. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Failure to realize the expected revenue growth, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our business, financial condition and results of operations.

We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, we may not be able to maintain regulatory compliance, which could have a material adverse effect on our business, financial condition and results of operations.

We face significant capital and other regulatory requirements as a financial institution. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions. In addition, we, on a consolidated basis, and Business First Bank, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or downsize our operations. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and upon our financial condition and performance. Accordingly, we may not be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, we could be subject to enforcement actions, which could have a material adverse effect on our business, financial condition and results of operations.

Interest rate shifts could reduce net interest income and otherwise have a material adverse effect on our financial condition and results of operations.

The majority of our banking assets are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings and cash flows depend to a great extent upon the level of our net interest income, or the difference between the interest income we earn on loans, investments and other interest-earning assets, and the interest we pay on interest-bearing liabilities, such as deposits and borrowings. Changes in interest rates can increase or decrease our net interest income, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. When interest-bearing liabilities mature or reprice more quickly, or to a greater degree than interest-earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly, or to a greater degree than interest-bearing liabilities, falling interest rates could reduce net interest income. As of December 31, 2016, 31.4% of our earning assets and 49.5% of our interest-bearing liabilities are variable rate. Our interest sensitivity profile was asset sensitive as of December 31, 2016, meaning that we estimate our net interest income would increase more from rising interest rates than from falling interest rates.

Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default and could result in a decrease in the demand for loans. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower rates. In addition, in a low interest rate environment, loan customers often pursue long-term fixed rate credits, which could adversely affect our earnings and net interest margin if rates increase. Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have an adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. At the same time, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income. Although our asset-liability management strategy is designed to control and mitigate exposure to the risks related to changes in market interest rates, those rates are affected by many factors outside of our control, including governmental monetary policies, inflation, deflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets.

We face significant competitive pressures that could impair our growth, decrease our profitability or reduce our market share.

We operate in the highly competitive banking industry and face significant competition for customers from bank and non-bank competitors, particularly regional and nationwide institutions, in originating loans, attracting deposits and providing other financial services. Our competitors are generally larger and may have significantly more resources, greater name recognition, and more extensive and established branch networks or geographic footprints than us. Because of their scale, many of these competitors can be more aggressive than we can on loan and deposit pricing. Also, many of our non-bank competitors have fewer regulatory constraints and may have lower cost structures. We expect competition to continue to intensify due to financial institution consolidation; legislative, regulatory and technological changes; and the emergence of alternative banking sources.

Our ability to compete successfully will depend on a number of factors, including, among other things:

- our ability to develop, maintain and build long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;
- our scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service;
- our ability to expand our market position;
- industry and general economic trends; and
- our ability to keep pace with technological advances and to invest in new technology.

Increased competition could require us to increase the rates we pay on deposits or lower the rates we offer on loans, which could reduce our profitability. Our failure to compete effectively in our primary markets could cause us to lose market share and could have a material adverse effect on our business, financial condition and results of operations.

Our ability to maintain our reputation is critical to the success of our business.

Our business plan emphasizes relationship banking. We have benefitted from strong relationships with and among our customers. As a result, we consider our reputation to be one of the most valuable components of our business.

Our growth over the past several years has depended on attracting new customers from competing financial institutions and increasing our market share, primarily through involvement in our primary markets and word-of-mouth advertising, rather than on growth in the market for banking services in our primary markets. As such, we strive to enhance our reputation by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve and delivering superior service to our customers. If our reputation is negatively affected by the actions of our employees or otherwise, our existing relationships may be damaged. We could lose some of our existing customers, and we may not be successful in attracting new customers. Any of these developments could have a material adverse effect on our business, financial condition and results of operations.

The fair value of our investment securities can fluctuate due to factors outside of our control.

As of December 31, 2016, the fair value of our investment securities portfolio was approximately $198.3 million, which included a net unrealized loss of approximately $3.5 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized or unrealized losses in future periods and declines in other income, which could have a material adverse effect on our business, results of operations, financial condition and future prospects. The process for determining whether impairment of a security is other-than-temporary often requires complex, subjective judgments about whether there has been a significant deterioration in the financial condition of the issuer, whether management has the intent or ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value, the future financial performance and liquidity of the issuer and any collateral underlying the security, and other relevant factors.

If we fail to maintain an effective system of disclosure controls and procedures and internal controls over financial reporting, we may not be able to accurately report our financial results or prevent fraud.

Ensuring that we have adequate disclosure controls and procedures, including internal controls over financial reporting, in place so we can produce accurate financial statements on a timely basis is costly and time-consuming and needs to be reevaluated frequently. As a public company, we are subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), which require annual management assessments of the effectiveness of our internal controls over financial reporting and, when we cease to be an emerging growth company under the JOBS Act, will require a report by our independent auditors addressing these assessments. Our management may conclude that our internal controls over financial reporting are not effective due to our failure to cure any identified material weakness or otherwise. Moreover, even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may not conclude that our internal controls over financial reporting are effective. In the future, our independent registered public accounting firm may not be satisfied with our internal controls over financial reporting or the level at which our controls are documented, designed, operated or reviewed, or we and our accounting firm may have differences in opinion regarding the applicable requirements. In addition, during the course of the evaluation, documentation and testing of our internal controls over financial reporting, we may identify deficiencies that we may not be able to remediate in time to meet the deadline imposed by the Securities and Exchange Commission ("SEC"), for compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. Any such deficiencies may also subject us to adverse regulatory consequences. If we fail to achieve and maintain the adequacy of our internal controls over financial reporting, as these standards are modified, supplemented or amended from time to time, we may be unable to report our financial information on a timely basis, we may not be able to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with the Sarbanes-Oxley Act, and we may suffer adverse regulatory consequences. There could also be a decline in investor confidence as to the reliability our financial statements, which could result in a decline in the value of our capital stock.

Our financial results depend on management's selection of accounting methods and certain assumptions and estimates.

Our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with Generally Accounting Principles Accepted in the United States, ("GAAP"), and with general practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of related revenues and expenses. Certain accounting policies inherently are based to a greater extent on estimates, assumptions and judgments of management and, as such, have a greater possibility of producing results that could be materially different than originally reported. They require management to make subjective or complex judgments, estimates or assumptions, and changes in those estimates or assumptions could have a significant impact on our consolidated financial statements. These critical accounting policies include the allowance for loan losses, accounting for income taxes, the determination of fair value for financial instruments and accounting for stock-based compensation. Because of the uncertainty of estimates involved in these matters, we may be required to significantly increase our allowance for loan losses or sustain loan losses that are significantly higher than the reserve provided, significantly increase our accrued tax liability or otherwise incur charges that could have a material adverse effect on our business, financial condition and results of operations.

From time to time, the Financial Accounting Standards Board ("FASB") and the Securities and Exchange Commission ("SEC") change the financial accounting and reporting standards or the interpretation of such standards that govern the preparation of our consolidated financial statements which could affect our critical accounting policies and the estimates and assumptions made by management. These changes are beyond our control, can be difficult to predict, and could materially impact how we report our financial condition and results of operations.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology, or we may experience operational challenges when implementing new technology.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, at least in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our products and service offerings. We may experience operational challenges as we implement these new technology enhancements or products, which could result in our not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products compared to those that we will be able to provide, which would put us at a competitive disadvantage. Accordingly, we may lose customers seeking new technology-driven products and services to the extent we are unable to provide such products and services.

We rely on third parties to provide key components of our business infrastructure, and a failure of these parties to perform for any reason could disrupt our operations.

Third parties provide key components of our operational infrastructure such as data processing, internet connections, network access, core application processing, statement production and account analysis. Our operations depend on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. Replacing vendors or addressing other issues with our third-party service providers could entail significant delay and expense. If we are unable to efficiently replace ineffective service providers, or if we experience a significant, sustained or repeated system failure or service denial, it could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations.

We could be subject to losses, regulatory action or reputational harm due to fraudulent and negligent acts on the part of loan applicants, our employees and vendors.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished by or on behalf of clients and counterparties, including financial statements, property appraisals, title information, employment and income documentation, account information and other financial information. We may also rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. Any such misrepresentation or incorrect or incomplete information may not be detected prior to funding. In addition, one or more of our employees or vendors could cause a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our loan documentation, operations or systems. Any of these developments could have a material adverse effect on our business, financial condition and results of operations.

Unauthorized access, cyber-crime and other threats to data security may require significant resources, harm our reputation, and otherwise have a material adverse effect on our business, financial condition and results of operations.

We necessarily collect, use and hold personal and financial information concerning individuals and businesses with which we have a banking relationship. Threats to data security, including unauthorized access, and cyber-attacks, rapidly emerge and change, exposing us to additional costs for protection or remediation and competing time constraints to secure our data in accordance with customer expectations and statutory and regulatory privacy and other requirements. It is difficult or impossible to defend against every risk being posed by changing technologies, as well as criminal intent on committing cyber-crime. Increasing sophistication of cyber-criminals and terrorists make keeping up with new threats difficult and could result in a breach. Controls employed by our information technology department and our other employees and vendors could prove inadequate. We could also experience a breach due to intentional or negligent conduct on the part of employees or other internal sources, software bugs or other technical malfunctions, or other causes. As a result of any of these threats, our customer accounts may become vulnerable to account takeover schemes or cyber-fraud. Our systems and those of our third-party vendors may also become vulnerable to damage or disruption due to circumstances beyond our or their control, such as from catastrophic events, power anomalies or outages, natural disasters, network failures, and viruses and malware.

A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs, and reputational damage, any of which could have a material adverse effect on our business, results of operations, financial condition and future prospects.

The market in which we operate is susceptible to hurricanes and other natural disasters and adverse weather which could result in a disruption of our operations and increases in loan losses.

A significant portion of our business is generated from markets that have, and may continue to be, damaged by major hurricanes, floods, tropical storms and other natural disasters and adverse weather. Natural disasters can disrupt our operations, cause widespread property damage, and severely depress the local economies in which we operate. If the economies in our primary markets experience an overall decline as a result of a natural disaster, adverse weather, or other disaster, demand for loans and our other products and services could be reduced. In addition, the rates of delinquencies, foreclosures, bankruptcies and losses on loan portfolios may increase substantially, as uninsured property losses or sustained job interruption or loss may materially impair the ability of borrowers to repay their loans. Moreover, the value of real estate or other collateral that secures the loans could be materially and adversely affected by such a disaster. Such a disaster could, therefore, result in decreased revenue and loan losses that could have a material adverse effect on our business, financial condition and results of operations.

If the goodwill that we recorded in connection with the AGFC merger, or if goodwill that we record in connection with future business acquisitions becomes impaired, it could require charges to earnings, which could have a material adverse effect on our business, financial condition and results of operations.

Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets we acquired in connection with the purchase of another financial institution. We review goodwill for impairment at least annually, or more frequently if a triggering event occurs which indicates that the carrying value of the asset might be impaired. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. There can be no assurance that our future evaluations of our existing goodwill or goodwill we may acquire in the future will not result in findings of impairment and related write-downs, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to environmental liability risk associated with our lending activities.

In the course of our business, we may purchase real estate, or we may foreclose on and take title to real estate. As a result, we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Any significant environmental liabilities could cause a material adverse effect on our business, financial condition and results of operations.

Risks Associated with our Common Stock

Our stock is not listed or traded on any established securities market and is less liquid than most securities traded in those markets.

Our stock is not listed or traded on any established securities exchange or market and we have no plans to seek to list our stock on any recognized exchange or qualify it for trading in any market. Accordingly, our stock has substantially fewer trades than the average securities listed on any national securities exchange. Most transactions in our stock are privately negotiated trades and our stock is very thinly traded. There is no dealer for our stock and no “market maker.” Our shares do not have a trading symbol. The lack of a liquid market can produce downward pressure on our stock price and can reduce the marketability of our stock.

The obligations associated with being a public company require significant resources and management attention.

As a company with stock registered with the SEC, we face increased legal, accounting, administrative and other costs and expenses that we did not previously incur as a private company. These costs will increase after we are no longer an emerging growth company. We are subject to the reporting requirements of the Exchange Act, which require that we file annual, quarterly and current reports with respect to our business and financial condition and proxy and other information statements, and the rules and regulations implemented by the SEC, the Sarbanes-Oxley Act, and the Dodd-Frank Act, each of which imposes additional reporting and other obligations on public companies.

We expect these rules and regulations, and changes in these laws, regulations and standards relating to corporate governance and public disclosure, which have created uncertainty for public companies, to increase legal and financial compliance costs and make some activities more time consuming and costly. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. Our investment in compliance with existing and evolving regulatory requirements will result in increased administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities, which could have a material adverse effect on our business, financial condition and results of operations. These increased costs could require us to divert a significant amount of money that we could otherwise use to expand our business and achieve our strategic objectives.

The rights of our common shareholders are subordinate to the rights of any debt that we may issue and may be subordinate to the holders of any other class of preferred stock that we may issue in the future.

Our board of directors has the authority to issue debt, or an aggregate of up to 1,000,000 shares of preferred stock, on the terms it determines without shareholder approval. Accordingly, you should assume that any shares of preferred stock that we may issue in the future will be senior to our common stock. Because our decision to issue debt or equity, or to incur other borrowings in the future will depend on market conditions and other factors beyond our control, the amount, timing, nature or success of our future capital raising efforts is uncertain. Thus, common shareholders bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings will negatively affect the market price of our common stock.

We are an "emerging growth company," and the reduced reporting requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act. For as long as we continue to be an emerging growth company we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies." These include, without limitation, exemption from the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced financial reporting requirements, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

We could be an emerging growth company for up to five years following the February 2015 registration of our common stock, but we could lose that status sooner if our gross revenues exceed $1.0 billion, if we issue more than $1.0 billion in non-convertible debt in a three year period, or if the market value of our common stock held by non-affiliates exceeds $700.0 million as of any June 30 before that time, in which case we would no longer be an emerging growth company as of the following December 31. Investors may find our common stock less attractive if we rely on the exemptions, which may decrease the price at which our shareholders may be able to sell their shares.

We are dependent upon Business First Bank for cash flow, and the Bank's ability to make cash distributions is subject to regulatory and legal restrictions which could impact our ability to satisfy our obligations.

Our primary asset is Business First Bank. As such, we depend upon Business First Bank for cash distributions through dividends on its stock to pay our operating expenses and satisfy our obligations, including debt obligations. There are numerous laws and banking regulations that limit Business First Bank's ability to pay dividends to us. If Business First Bank is unable to pay dividends to us, we will not be able to satisfy our obligations. Federal and state statutes and regulations restrict the Bank's ability to make cash distributions to us. These statutes and regulations require, among other things, that Business First Bank maintain certain levels of capital in order to pay a dividend. Further, federal and state banking authorities have the ability to restrict the Bank's payment of dividends through supervisory action.

Our dividend policy may change without notice, and our future ability to pay dividends is subject to regulatory limitations.

In 2016, our board of directors made the decision to commence payment of regular quarterly dividends; however, there can be no guarantee that we will pay dividends at any time in the future. All future determinations relating to dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, ability to service any equity or debt obligations senior to our common stock and other factors deemed relevant by the board of directors. In addition, as a bank holding company, we are subject to general regulatory restrictions on the payment of cash dividends. Federal bank regulatory agencies have the authority to prohibit bank holding companies from engaging in unsafe or unsound practices in conducting their business, which depending on the financial condition and liquidity of the holding company at the time, could include the payment of dividends.

Our corporate governance documents and certain corporate and banking laws applicable to us could make a takeover more difficult.

Certain provisions of our articles of incorporation, bylaws and corporate and federal banking laws, could make it more difficult for a third party to acquire control of our organization or conduct a proxy contest, even if those events were perceived by many of our shareholders as beneficial to their interests. These provisions, and the corporate and banking laws and regulations applicable to us:

- empower our board of directors, without shareholder approval, to issue preferred stock, the terms of which, including voting power, are set by our board of directors;
- do not provide for cumulative voting in elections of directors; and
- require prior regulatory application and approval of any transaction involving control of our organization.

These provisions may discourage potential acquisition proposals and could delay or prevent a change in control of Business First, including under circumstances in which our shareholders might otherwise receive a premium over the market price of our shares.

An investment in Business First's common stock is not an insured deposit and is subject to risk of loss.

Your investment in our common stock is not a bank deposit and is not insured or guaranteed by the FDIC or any other government agency. Your investment is subject to investment risk, and you must be capable of affording the loss of your entire investment.

Risks Relating to the Regulation of our Industry

We operate in a highly regulated environment, which could restrain our growth and profitability.

We are subject to extensive regulation and supervision that governs almost all aspects of our operations. These laws and regulations, and the supervisory framework that oversees the administration of these laws and regulations, are primarily intended to protect consumers, depositors, the Deposit Insurance Fund and the banking system as a whole, and not shareholders and counterparties. These laws and regulations, among other matters, affect our lending practices, capital structure, investment practices, dividend policy, operations and growth. Compliance with the myriad laws and regulations applicable to our organization can be difficult and costly. In addition, these laws, regulations and policies are subject to continual review by governmental authorities, and changes to these laws, regulations and policies, including changes in interpretation or implementation of these laws, regulations and policies, could affect us in substantial and unpredictable ways and often impose additional compliance costs. Further, any new laws, rules and regulations, such as the Dodd-Frank Act, could make compliance more difficult or expensive. All of these laws and regulations, and the supervisory framework applicable to our industry, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC and the Louisiana OFI periodically examine various aspects our business, including our compliance with laws and regulations. If, as a result of an examination, our regulators were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, our regulators may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our FDIC deposit insurance premiums and assessments may increase.

Our deposits are insured by the FDIC up to legal limits and, accordingly, we are subject to FDIC deposit insurance assessments. Our regular assessments are determined by our risk classification, which is based on our regulatory capital levels and the level of supervisory concern that we pose. High levels of bank failures since the beginning of the financial crisis and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put significant pressure on the Deposit Insurance Fund. In order to maintain a strong funding position and restore the reserve ratios of the Deposit Insurance Fund, the FDIC has increased deposit insurance assessment rates and charged special assessments to all FDIC-insured financial institutions. Further increases in assessment rates or special assessments may occur in the future, especially if there are significant additional financial institution failures. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could materially and adversely affect our business, financial condition, results of operations and prospects.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the Community Reinvestment Act or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and prospects.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition, results of operations and prospects.

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

Our current principal offices are located at 500 Laurel Street, Baton Rouge, Louisiana. We relocated our corporate headquarters to downtown Baton Rouge, Louisiana in July 2016. All of our banking offices are located in the State of Louisiana. The following table provides information about all of our banking locations. We believe that our facilities are adequately covered by insurance and that these facilities are adequate to meet our needs.

Location	Date Opened	Own/ Lease	Square Footage
Principal Executive Office:			
500 Laurel Street Baton Rouge, Louisiana	7/11/2016	Lease	24,347
Banking Centers:			
Northwest Louisiana Banking Center 800 Spring Street, Suite 120 Shreveport, Louisiana	8/28/2006	Lease	8,267
Northshore Banking Center 1675 N. Highway 190 Covington, Louisiana	10/18/2007	Lease	4,909
Lafayette Banking Center CDT Plaza 900 East St. Mary Boulevard, Suite 100 Lafayette, Louisiana	5/22/2008	Lease	4,723
Southwest Louisiana Banking Center 728 Ryan Street Lake Charles, Louisiana	3/9/2009	Lease	6,065
Bayou Region Banking Center 435 Corporate Drive, Suite 102 Houma, Louisiana	11/17/2010	Lease	2,800
Gonzales Banking Center 1821 West Highway 30 Gonzales, Louisiana	12/18/2008*	Own	3,360
Florida Boulevard Banking Center 4944 Florida Street Baton Rouge, Louisiana	4/6/1992*	Own	2,167
Jefferson Highway Banking Center 7880 Jefferson Highway Baton Rouge, Louisiana	12/7/2004*	Lease	2,330
Perkins Road Banking Center 10725 Perkins Road Baton Rouge, Louisiana	6/9/2003*	Lease	4,000
Coursey Boulevard Banking Center 11307 Coursey Boulevard Baton Rouge, Louisiana	11/18/2004*	Own	11,092
Zachary Banking Center 1858 Church Street Zachary, Louisiana	12/10/2009*	Own	2,868

Location	Date Opened	Own/ Lease	Square Footage
Denham Springs Banking Center 31635 Louisiana Hwy. 16 Denham Springs, Louisiana	8/16/2005*	Own	3,682
Brusly Banking Center 729 South Vaughan Street Brusly, Louisiana	3/26/1979*	Own	1,943
Erwinville Banking Center 4610 Poydras Bayou Rd. Erwinville, Louisiana	1/26/1981*	Own	750
Port Allen Banking Center 320 North Alexander Ave Port Allen, Louisiana	1/1/1905*	Own	21,444
New Orleans Loan Production Office 3838 N. Causeway Blvd Metairie, Louisiana	9/1/2015	Lease	1,867
Wealth Solutions Office 602 Green Street Thibodaux, Louisiana	11/1/2015	Lease	850

*Acquired in the merger transaction with AGFC, completed following the close of business on March 31, 2015.

ITEM 3. Legal Proceedings.

We and our subsidiaries are defendants in various lawsuits arising in the normal course of business. In the opinion of our management, the ultimate resolution of such matters should not have a material adverse effect on our consolidated financial condition or results of operations. Litigation is, however, inherently uncertain, and we cannot make assurances that we will prevail in any of these actions, nor can we estimate with reasonable certainty the amount of damages that we might incur.

ITEM 4. Mine Safety Disclosures.

Not applicable.

Part II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

There is no established public trading market for our common stock, and no market for our common stock is expected to develop. No registered broker/dealer makes a market in our common stock, and our common stock is not listed or quoted on any stock exchange or automated quotation system. American Stock Transfer & Trust Company, LLC acts as register and transfer agent for our shares of common stock.

From time to time, we become aware of trades of shares of our common stock. The following table sets forth the high and low sales prices (to the extent known to our management) for trades of our common stock and the cash dividends declared per share for the periods shown:

By Quarter 2016	High	Low	Cash Dividend Per Share
First	$ 15.00	$ 10.00	$ —
Second	$ 16.00	$ 16.00	$ 0.05
Third	$ 16.00	$ 9.00	$ 0.05
Fourth	$ 16.00	$ 13.75	$ 0.05

By Quarter 2015	High	Low	Cash Dividend Per Share
First	$ N/A	$ N/A	$ —
Second	$ N/A	$ N/A	$ —
Third	$ 16.50	$ 15.75	$ —
Fourth	$ 16.00	$ 15.00	$ —

Common Stock

As of March 10, 2017, there were 6,914,179 issued and outstanding shares of our common stock held of record by approximately 807 shareholders. In addition, we had outstanding warrants to purchase 87,625 shares of our common stock, which were issued to our organizers in connection with our organization. All outstanding warrants have an exercise price of $10.00 per share and effective February 1, 2016 were extended to expire on February 2, 2019.

Dividends

In 2016, our board of directors made the determination to begin paying regular quarterly dividends; however, we are not obligated to pay dividends. The payment of future dividends and our dividend policy will depend on our earnings, capital requirements and financial condition, as well as other factors that our board of directors deems relevant. For additional discussion of legal and regulatory restrictions on the payment of dividends, see "*PART I - ITEM 1. Business – Supervision and Regulation*."

Securities Authorized for Issuance under Equity Compensation Plans

In 2006, our board of directors adopted the 2006 Stock Option Plan pursuant to which we were permitted to issue stock options to purchase up to 1,500,000 shares of our common stock, all of which could be issued as either incentive stock options under Section 422A of the Internal Revenue Code of 1986, as amended, or non-qualified stock options. Although our 2006 Stock Option Plan expired on December 22, 2016 and we are no longer permitted to issue additional stock options under this plan, as of December 31, 2016, we had 998,480 outstanding and unexercised stock options that have been issued to our executive officers and key personnel and remain subject to the terms and conditions of the 2006 Stock Option Plan until they are exercised or forfeited.

The following table summarizes information as of December 31, 2016 relating to the number of securities to be issued upon the exercise of the outstanding options and warrants and their weighted-average exercise price.

	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans
Equity compensations plans approved by security holders	998,480	$ 12.82	—
Equity compensation plans not approved by security holders	87,625	10.00	—
Total equity compensation plans	1,086,105	$ 12.59	—

Recent Sales of Unregistered Securities

We did not sell any equity securities that were not registered under the Securities Act of 1933 during 2016.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On March 31, 2016, our board of directors approved a resolution authorizing management to repurchase a limited number of shares of our common stock prior to March 31, 2017. The authorization to repurchase shares through privately negotiated transactions in any calendar quarter is subject to a number of conditions and is limited to a number of shares having a maximum aggregate repurchase price equal to $1.0 million. Business First purchased 25,740 shares of our common stock under this delegated authority during the fourth quarter of 2016. In addition, on July 28, 2016, our board of directors authorized the repurchase of 100,000 shares of our common stock in order to facilitate a charitable contribution to the Baton Rouge Area Foundation by one of our shareholders. This transaction was consummated during the fourth quarter 2016. The equity securities repurchased during the fourth quarter 2016 are as follows:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
Month #1:				
October 1 through October 31, 2016	—	$ —	—	$ —
Month #2:				
November 1 through November 30, 2016	10,000	$ 13.75	—	$ —
Month #3:				
December 1 through December 31, 2016	115,740	$ 15.01	—	$ —

ITEM 6. Selected Financial Data.

As a smaller reporting company, we are not required to provide the information required by this Item.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This discussion presents management's analysis of our results of operations and financial condition over each of the last two most recent fiscal years. The discussion should be read in conjunction with our Financial Statements and the notes related thereto which appear elsewhere in this Report.

The following discussion and analysis is to focus on significant changes in the financial condition of Business First and its subsidiaries from December 31, 2015 to December 31, 2016 and its results of operations for the year ended December 31, 2016. This discussion and analysis is intended to highlight and supplement information presented elsewhere in this report, particularly the consolidated financial statements and related notes appearing in Item 8. 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 statement, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. Business First assumes no obligation to update any of these forward-looking statements.

Overview

We are a registered bank holding company headquartered in Baton Rouge, Louisiana. Through our wholly-owned subsidiary, Business First Bank, a Louisiana state chartered bank, we provide a broad range of financial services tailored to meet the needs of small to medium-sized businesses and professionals. Since our inception in 2006, our priority has been and continues to be creating shareholder value through the establishment of an attractive commercial banking franchise in Louisiana. We consider our primary market to include the State of Louisiana. We currently operate out of eighteen offices, including sixteen banking centers, one loan production office, and one wealth solutions office in eight markets across Louisiana. As of December 31, 2016, we had total assets of $1.1 billion, total loans of $811.1 million, total deposits of $932.8 million, and total stockholders' equity of $113.6 million.

After the close of business on March 31, 2015, we merged with American Gateway Financial Corporation (AGFC), parent bank holding company for American Gateway Bank, pursuant to which the operations of AGFC were merged with us. Our financial condition and results of operations as of and for the year ended December 31, 2015 were impacted as a result of this merger, as 10 former American Gateway branches were added to our branch network. Total assets acquired were $372.0 million, which included loans of $143.2 million, investment securities of $108.4 million, and deposits of $283.3 million. Shareholders of AGFC received merger consideration of $10 in cash and 11.88 shares of our common stock in exchange for each share of AGFC common stock. See Note 3 to the Audited Consolidated Financial Statements for additional information regarding this merger.

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

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

Financial Highlights

The financial highlights for the year ended December 31, 2016 include:

- **Total assets** of $1.1 billion, a $29.8 million or 2.8% increase from December 31, 2015.
- **Total loans** of $811.1 million, a $38.7 million or 5.0% increase from December 31, 2015.
- **Total deposits** of $932.8 million, a $28.6 million or 3.2% increase from December 31, 2015.

- **Net income for the year** ended December 31, 2016 of $5.1 million, a $1.0 million or 24.8% increase from the year ended December 31, 2015.

- **Net interest income** of $37.6 million for the year ended December 31, 2016, a year-over-year increase of $3.4 million or 10.1%, from the year ended December 31, 2015.

- **An allowance for loan and lease losses** of 1.01% of total loans held for investment and a ratio of non-performing loans to total loans held for investment of 0.90% as of December 31, 2016.

- **Return on average assets** of 0.45% for the year ended December 31, 2016.

- **Return on average equity** of 4.42% for the year ended December 31, 2016.

- **Capital ratios** for Tier 1 Leverage, Common Equity Tier 1, Tier 1 Risk-based and Total Risk-based Capital of 9.67%, 10.81%, 10.81% and 11.63%, respectively as of December 31, 2016.

- **Book value per share** of $16.42 as of December 31, 2016, an increase of 2.8% from $15.98 at December 31, 2015.

Results of Operations for the Years Ended December 31, 2016 and 2015

Performance Summary

For the year ended December 31, 2016, net income was $5.1 million, or $0.73 per basic share and $0.70 per diluted share, compared to net income of $4.1 million, or $0.61 per basic share and $0.59 per diluted share, for the year ended December 31, 2015. The increase for the year ended December 31, 2016, compared to the same time period 2015, can mainly be attributed to our year over year growth in earning assets. Return on average assets increased to 0.45% for the year ended December 31, 2016 from 0.41% for the year ended December 31 2015, primarily because of the increase in net income while average assets had nominal growth during the year ended December 31, 2016. Return on average equity was 4.42% for the year ended December 31, 2016, as compared to 3.89% for the year ended December 31, 2015.

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 stockholders' equity also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources. We calculate average assets, liabilities, and capital using a monthly average.

For the year ended December 31, 2016, net interest income totaled $37.6 million, and net interest margin and net interest spread were 3.64% and 3.46%, respectively. For the year ended December 31, 2015 net interest income totaled $34.2 million and net interest margin and net interest spread were 3.68% and 3.51%, respectively. The change in net interest margin and net interest spread were primarily attributable to the change in rate environment where the average rate on the loan portfolio decreased seven basis points from 5.03% as of December 31, 2015 to 4.96% as of December 31, 2016. In addition, we experienced an overall increase in cost of funds of nine basis points for the same period. While we experienced significant growth in average loan balances, the market yields on new loan originations were below the average yield of amortizing or paid-off loans. However, this declining yield on new originations was partially offset by the accretion of the purchase discount related to the AGFC loan portfolio which positively impacted average loan yields. Due to the continued impact of new loan growth and the runoff of higher yielding loan balances, we anticipate continued pressure on our net interest margin and net interest spread.

The following table presents, 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 years ended December 31, 2016 and 2015, interest income not recognized on nonaccrual loans was not material. Any nonaccrual loans have been included in the table as loans carrying a zero yield. The average total loans reflected below is net of deferred loan fees and discounts. Acquired loans were recorded at fair value at acquisition and accrete interest income over the remaining lives of the respective loans.

	For the Years Ended December 31,					
	2016			2015		
	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest-earning assets:						
Total loans	$ 795,625	$ 39,468	4.96%	$ 700,952	$ 35,244	5.03%
Securities available for sale	211,351	3,781	1.79%	178,915	3,186	1.78%
Interest-bearing deposits in other banks	25,642	169	0.66%	47,617	187	0.39%
Total interest-earning assets	1,032,618	43,418	4.20%	927,484	38,617	4.16%
Allowance for loan losses	(7,453)			(7,144)		
Noninterest-earning assets	102,608			79,147		
Total assets	$ 1,127,773	$ 43,418		$ 999,487	$ 38,617	
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 723,996	$ 5,152	0.71%	$ 632,755	$ 3,858	0.61%
Advances from FHLB	53,516	561	1.05%	54,942	566	1.03%
Other borrowings	6,436	113	1.76%	3,069	43	1.40%
Total interest-bearing liabilities	783,948	5,826	0.74%	690,766	4,467	0.65%
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	221,047			188,995		
Other liabilities	7,141			14,423		
Total noninterest-bearing liabilities	228,188			203,418		
Stockholders' equity	115,637			105,303		
Total liabilities and stockholders' equity	$ 1,127,773			$ 999,487		
Net interest rate spread[1]			3.46%			3.51%
Net interest income		$ 37,592			$ 34,150	
Net interest margin[2]			3.64%			3.68%

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

	For the Year Ended December 31, 2016 compared to the Year ended December 31, 2015		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands)		
Interest-earning assets:			
Total loans	$ 4,697	$ (473)	$ 4,224
Securities available for sale	580	15	595
Interest-earning deposits in other banks	(145)	127	(18)
Total increase (decrease) in interest income	$ 5,132	$ (331)	$ 4,801
Interest-bearing liabilities:			
Interest-bearing deposits	$ 649	$ 645	$ 1,294
Advances from FHLB	(15)	10	(5)
Other borrowings	59	11	70
Total increase (decrease) in interest expense	693	666	1,359
Increase (decrease) in net interest income	$ 4,439	$ (997)	$ 3,442

Provision for Loan Losses

Our provision for loan losses is a charge to income in order to bring our allowance for loan losses to a level deemed appropriate by management. For a description of the factors taken into account by management in determining the allowance for loan losses see "—Financial Condition—Allowance for Loan Losses." The provision for loan losses was $1.2 million for both of the years ended December 31, 2016 and 2015.

Noninterest Income

Our primary sources of recurring noninterest income are service charges on deposit accounts, debit card fee income, brokerage commissions, and income from bank-owned life insurance.

The following table presents, for the periods indicated, the major categories of noninterest income:

	For the Years Ended December 31,		Increase (Decrease)
	2016	2015	
	(Dollars in thousands)		
Noninterest income:			
Service charges on deposit accounts	$ 2,033	$ 1,553	$ 480
Debit card fee income	619	467	152
ATM fees	183	153	30
Gain on sales of other real estate owned	168	54	114
Bank-owned life insurance income	789	637	152
Gain (Loss) on sales of investment securities	232	(15)	247
Gain (Loss) on sales / disposal of premises and equipment	24	(157)	181
Brokerage commissions	657	13	644
Correspondent bank income	204	—	204
Other	512	475	37
Total noninterest income	$ 5,421	$ 3,180	$ 2,241

Noninterest income for the year ended December 31, 2016 increased $2.2 million or 70.5% to $5.4 million compared to noninterest income of $3.2 million for the same period in 2015. The primary components of the increase were as follows:

Service charges on deposit accounts. We earn fees from our customers for deposit-related services, and these fees constitute a significant and predictable component of our noninterest income. Service charges on deposit accounts were $2.0 million for the year ended December 31, 2016, an increase of $480,000 over the same period in 2015. The increase was primarily due to the continued deposit penetration in our market area and the resulting increase in fee income as well as the increase in the number of deposit accounts as a result of the March 2015 merger with AGFC.

Debit card fee income. We earn fees from our customers based upon debit card activity, and these fees constitute a significant recurring component of our noninterest income. Debit card fee income was $619,000 and $467,000 for the years ended December 31, 2016 and 2015, respectively, representing an increase of $152,000 or 32.5%. The increase was primarily due to increased customer volume as a result of the March 2015 merger with AGFC.

ATM fees. We earn fee income as a result of noncustomer activity at our ATM machines, and these fees represent a significant and predictable component of our noninterest income. ATM fees were $183,000 and $153,000 for the years ended December 31, 2016 and 2015, respectively. These fees were a new revenue source in 2015 as a result of the AGFC merger, as previously we did not own any ATM machines.

Bank-owned life insurance income. We invest in bank-owned life insurance due to its attractive nontaxable return and protection against the loss of our key employees. We record income based on the growth of the cash surrender value of these policies as well as the annual yield. Income from bank-owned life insurance was $789,000 for the year ended December 31, 2016 as compared to $637,000 for the same time period in 2015, an increase of $152,000. The increase was primarily due to receipt of a death benefit related to a former AGFC employee.

Gain (Loss) on sales / disposal of premises and equipment. We had a gain of $24,000 and a loss of $157,000 for the years ended December 31, 2016 and 2015, respectively, related to the sale or other disposition of premises and equipment. In the third quarter 2016 we sold a building acquired in the AGFC merger at a gain of $24,000. In conjunction with the AGFC merger and our July 2015 rebranding, we incurred a loss of $157,000 related to the disposition of our outdated signage.

Brokerage commissions. We earn commissions from brokerage services provided by our Wealth Solutions Group. We began offering these services to our clients during the first quarter 2015. Brokerage commissions totaled $657,000 and $13,000 for the years ended December 31, 2016 and 2015, respectively. The increases are due to these services being in the start-up phase during the year ended December 31, 2015.

Correspondent bank income. In 2016 we renegotiated certain of our correspondent banking relationships and received earnings credit income of $204,000 for the year ended December 31, 2016. There was no correspondent bank income for 2015.

Other. This category includes a variety of other income producing activities, including wire transfer fees, mortgage related income, insurance commissions, credit card income, participation fee income and rental income. Other income increased $37,000 or 7.8% for the year ended December 31, 2016, compared to the same period in 2015.

Noninterest Expense

Generally, noninterest expense is composed of all employee expenses and costs associated with operating our facilities, obtaining and retaining customer relationships and providing bank services. The major 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 FDIC assessments, data processing expenses, and advertising and promotion expenses.

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

	For the Years Ended December 31,		Increase (Decrease)
	2016	2015	
		(Dollars in thousands)	
Salaries and employee benefits	$ 19,471	$ 16,145	$ 3,326
Non-staff expenses:			
Occupancy of bank premises	2,428	2,097	331
Depreciation and amortization	1,577	1,398	179
Data processing	1,528	1,141	387
FDIC assessment fees	748	790	(42)
Legal and other professional fees	1,806	1,980	(174)
Advertising and promotions	1,253	805	448
Utilities and communications	1,004	575	429
Ad valorem shares tax	650	669	(19)
Other real estate owned expenses and write-downs	221	111	110
Other	4,383	4,798	(415)
Total noninterest expense	$ 35,069	$ 30,509	$ 4,560

Noninterest expense for the year ended December 31, 2016 increased $4.6 million or 14.9% to $35.1 million compared to noninterest expense of $30.5 million for the same period in 2015. The most significant components of the increase were as follows:

Salaries and employee benefits. Salaries and employee benefits are the largest component of noninterest expense and include payroll expense, the cost of incentive compensation, benefit plans, health insurance and payroll taxes. Salaries and employee benefits were $19.5 million for the year ended December 31, 2016, an increase of $3.3 million or 20.6% compared to the same period in 2015. The increase was primarily attributable to new salaries and benefits for employees acquired in the 2015 AGFC merger, as well as additional hires for new positions. Our salary expense also increased as a result of our merit increase cycle. As of December 31, 2016, we had 208 full-time equivalent employees. Salaries and employee benefits included stock-based compensation expense of $456,000 and $198,000 for the years ended December 31, 2016 and 2015, respectively. The increased stock-based compensation expense incurred during the year ended December 31, 2016, compared to the prior year, was primarily as a result of extending the expiration date for the warrants and options expiring in 2016.

Occupancy of bank premises. Expense associated with occupancy of premises was $2.4 million for the year ended December 31, 2016 and $2.1 million for the same period in 2015. The increase of $331,000 can primarily be attributed to the addition of 10 banking centers in conjunction with the March 2015 merger with AGFC. The increase is also in part due to the demolition and cleanup costs incurred for one of our branches impacted by the August 2016 flooding in south Louisiana as well the costs incurred in July 2016 to relocate our corporate offices to downtown Baton Rouge.

Depreciation and amortization. Depreciation and amortization costs were $1.6 million and $1.4 million for the years ended December 31, 2016 and 2015, respectively. This category includes leasehold, furniture, fixtures and equipment depreciation totaling $1.3 million and $1.2 million for the years ended December 31, 2016 and 2015, respectively. The amortization of intangible assets was $276,000 and $207,000 for the years ended December 31, 2016 and 2015, respectively.

Data processing. Data processing expenses were $1.5 million for the year ended December 31, 2016 and $1.1 million for the same period in 2015. The increase of $387,000 for the year ended December 31, 2016 was attributable to the merger with AGFC as well as organic growth in our loans and deposits.

Legal and other professional fees. Other professional fees include audit, loan review, compliance, and other consultants. Legal and other professional fees were $1.8 million and $2.0 million for the years ended December 31, 2016 and 2015, respectively. The decrease of $174,000 for the year ended December 31, 2016 can be attributed to renegotiating certain consulting agreements and the continual reevaluation of consulting products and services. The costs incurred during the year ended December 31, 2015 related to the AGFC merger and registration of our common stock were replaced in 2016 with fees incurred in our defense of the litigation related to the dissenting former AGFC shareholders who exercised their statutory rights of appraisal as well as due diligence costs related to an unsuccessful bid for a potential acquisition.

Other. This category includes operating and administrative expenses including business development expenses (i.e. travel and entertainment, donations and club memberships), directors' fees, insurance, supplies and printing, equipment rent, and software support and maintenance. Other noninterest expense decreased $415,000 for the year ended December 31, 2016 compared to the same period in 2015. The decrease was primarily due to the nonrecurring conversion and post-merger costs related to the 2015 merger with AGFC which totaled $1.1 million for the year ended December 31, 2015.

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 year ended December 31, 2016, income tax expense totaled $1.6 million, an increase of $88,000 or 5.8% compared to $1.5 million for the same period in 2015. The increase in income tax expense can be attributed primarily to an increase in taxable income. Our effective tax rate for the years ended December 31, 2016 and 2015 was 24.0% and 27.1%, respectively. Our effective tax rate for both years was affected primarily by tax-exempt income generated by municipal securities and bank-owned life insurance and by other nondeductible expenses.

Financial Condition

Our assets increased $29.8 million or 2.8% from $1.1 billion as of December 31, 2015 to $1.1 billion as of December 31, 2016. Our asset growth was primarily driven by loan and deposit growth.

Loan Portfolio

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

As of December 31, 2016, total loans, including mortgage loans held for sale, were $811.1 million, an increase of $38.7 million compared to $772.4 million as of December 31, 2015. The increase was primarily due to our continued loan penetration in our primary market area. Of these amounts, $180,000 in loans were classified as held for sale as of December 31, 2016. No loans were classified as held for sale as of December 31, 2015.

Total loans as a percentage of deposits were 87.0% and 85.4% as of December 31, 2016 and 2015, respectively. Total loans as a percentage of assets were 73.3% and 71.8% as of December 31, 2016 and 2015, respectively.

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

	As of December 31, 2016		As of December 31, 2015	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)		(Dollars in thousands)	
Commercial	$ 213,120	26.3%	$ 185,276	24.0%
Real estate:				
Construction and land	94,426	11.6%	97,872	12.7%
Farmland	9,217	1.1%	8,897	1.1%
1-4 family residential	129,052	15.9%	112,954	14.6%
Multi-family residential	22,737	2.8%	26,058	3.4%
Nonfarm nonresidential	298,057	36.8%	312,207	40.4%
Consumer	44,342	5.5%	29,128	3.8%
Total loans held for investment	$ 810,951	100%	$ 772,392	100%

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

Commercial loans increased $27.8 million or 15.0% to $213.1 million as of December 31, 2016 from $185.3 million as of December 31, 2015. The increase in lending activity was due the efforts of our bankers who attracted new clients and leveraged existing bank relationships to fund expansion and growth opportunities.

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

Construction and land loans decreased $3.4 million or 3.5% to $94.4 million as of December 31, 2016 from $97.9 million as of December 31, 2015. The decrease may be attributable to the slowdown in the oil and gas sector over the last several years, and the resulting negative effect on new subdivision development in several of our markets.

1-4 family residential. Our 1-4 family residential loan portfolio is comprised of loans secured by single family homes, which are both owner-occupied and investor owned. Our 1-4 family residential loans have a relatively small balance spread between many individual borrowers.

1-4 family residential loans increased $16.1 million or 14.3% to $129.1 million as of December 31, 2016 from $113.0 million as of December 31, 2015. This increase resulted from both the conversion of residential construction to in-house financed owner-occupied term debt and new financing of existing 1-4 family residential.

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

Nonfarm nonresidential loans decreased $14.2 million or 4.5% to $298.1 million as of December 31, 2016 from $312.2 million as of December 31, 2015. The decrease was primarily driven by two factors: (1) regularly scheduled principal amortization of the portfolio, and (2) loans that were refinanced by borrowers with other financial institutions.

Other loan categories. Other categories of loans included in our loan portfolio include farmland and agricultural loans made to farmers and ranchers relating to their operations, multi-family residential loans, and consumer loans. None of these categories of loans represents a significant portion of our total loan portfolio.

The contractual maturity ranges of loans in our loan portfolio and the amount of such loans with fixed and floating interest rates in each maturity range as of date indicated are summarized in the following tables:

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

	As of December 31, 2015			
	One Year or Less	One Through Five Years	After Five Years	Total
	(Dollars in thousands)			
Commercial	$ 68,158	$ 82,765	$ 34,353	$ 185,276
Real estate:				
Construction and land	52,242	38,415	7,215	97,872
Farmland	2,560	5,470	867	8,897
1-4 family residential	13,524	52,639	46,791	112,954
Multi-family residential	1,408	12,086	12,564	26,058
Nonfarm nonresidential	37,802	128,039	146,366	312,207
Consumer	14,600	12,034	2,494	29,128
Total loans held for investment	$ 190,294	$ 331,448	$ 250,650	$ 772,392
Amounts with fixed rates	$ 85,246	$ 216,675	$ 151,589	$ 453,510
Amounts with floating rates	$ 105,048	$ 114,773	$ 99,061	$ 318,882

Nonperforming Assets

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

We have several procedures in place to assist in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our bankers, and we also monitor our delinquency levels for any negative or adverse trends.

There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

We believe our conservative lending approach and focused management of nonperforming assets has resulted in sound asset quality and timely resolution of problem assets. We had $8.5 million and $10.0 million in nonperforming assets as of December 31, 2016 and 2015, respectively. We had $7.3 million in nonperforming loans as of December 31, 2016 compared to $8.0 million as of December 31, 2015. The decrease in nonperforming assets and nonperforming loans from December 31, 2015 to December 31, 2016 is mainly attributable to our successful workout efforts on several larger clients.

The following table presents information regarding nonperforming loans at the dates indicated:

	As of December 31, 2016 (Dollars in thousands)	As of December 31, 2015 (Dollars in thousands)
Nonaccrual loans	$ 7,126	$ 7,957
Accruing loans 90 or more days past due	168	—
Total nonperforming loans	7,294	7,957
Nonaccrual debt securities	—	—
Other real estate owned:		
Commercial real estate, construction, land and land development	1,187	1,373
Residential real estate	—	660
Total other real estate owned	1,187	2,033
Total nonperforming assets	$ 8,481	$ 9,990
Restructured loans-nonaccrual	$ 816	$ 811
Restructured loans-accruing	$ 5,115	$ 5,054
Ratio of nonperforming loans to total loans held for investment	0.90%	1.03%
Ratio of nonperforming assets to total assets	0.77%	0.93%

	As of December 31, 2016 (Dollars in thousands)	As of December 31, 2015 (Dollars in thousands)
Nonaccrual loans by category:		
Real estate:		
Construction and land	$ 243	$ 1,738
1-4 family residential	2,721	3,205
Multi-family residential	—	229
Nonfarm nonresidential	1,201	1,806
Commercial	2,763	979
Consumer	198	—
Total	$ 7,126	$ 7,957

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

The following table summarizes our internal ratings of our loans held for investment as of the dates indicated.

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

	As of December 31, 2015				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real estate:					
Construction and land	$ 93,740	$ 1,300	$ 1,094	$ 1,738	$ 97,872
Farmland	8,897	—	—	—	8,897
1-4 family residential	104,720	1,824	3,205	3,205	112,954
Multi-family residential	24,884	945	—	229	26,058
Nonfarm nonresidential	281,503	12,727	16,171	1,806	312,207
Commercial	157,734	22,222	4,341	979	185,276
Consumer	28,702	396	30	—	29,128
Total	$ 700,180	$ 39,414	$ 24,841	$ 7,957	$ 772,392

Allowance for loan losses

We maintain an allowance for loan losses that represents management's best estimate of the loan losses and risks inherent in the loan portfolio. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates. For additional discussion of our methodology, please refer to "—Critical Accounting Policies—Allowance for loan losses."

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

- for commercial and industrial loans, the operating results of the commercial, industrial or professional enterprise, the borrower's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in that category, and the value, nature and marketability of collateral;

- for commercial mortgage loans and multifamily residential loans, the debt service coverage ratio (income from the property in excess of operating expenses compared to loan payment requirements), operating results of the owner in the case of owner occupied properties, the loan to value ratio, the age and condition of the collateral, and the volatility of income, property value and future operating results typical for properties of that type;

- for 1-4 family residential mortgage loans, the borrower's ability to repay the loan, including a consideration of the debt to income ratio and employment and income stability, the loan to value ratio, and the age, condition and marketability of the collateral; and

- for construction, land development and other land loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease, the quality and nature of contracts for presale or prelease, if any, the experience and ability of the developer, and the loan to value ratio.

As of December 31, 2016, the allowance for loan losses totaled $8.2 million or 1.01% of total loans held for investment. As of December 31, 2015, the allowance for loan losses totaled $7.2 million or 0.94% of total loans held for investment.

The following table presents, as of and for the periods indicated, an analysis of the allowance for loan losses and other related data:

	As of December 31, 2016 (Dollars in thousands)	As of December 31, 2015 (Dollars in thousands)
Average loans outstanding[1]	$ 795,625	$ 700,952
Gross loans held for investment outstanding at end of period[1]	$ 810,951	$ 772,392
Allowance for loan losses at beginning of period	7,244	6,632
Provision for loan losses	1,220	1,200
Charge-offs:		
Real estate:		
Construction, land and farmland	484	102
Residential	162	144
Nonfarm non-residential	473	44
Commercial	667	695
Consumer	3	—
Total charge-offs	1,789	985
Recoveries:		
Real estate:		
Construction, land and farmland	10	34
Residential	140	94
Nonfarm non-residential	1,258	13
Commercial	33	164
Consumer	46	92
Total recoveries	1,487	397
Net charge-offs	302	588
Allowance for loan losses at end of period	$ 8,162	$ 7,244
Ratio of allowance to end of period loans held for investment	1.01%	0.94%
Ratio of net charge-offs to average loans	0.04%	0.08%

(1) Excluding loans held for sale.

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

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

	As of December 31, 2016		As of December 31, 2015	
	Amount	Percent to Total	Amount	Percent to Total
	(Dollars in thousands)		(Dollars in thousands)	
Real estate:				
Construction and land	$ 933	11.4%	$ 600	8.3%
Farmland	75	0.9%	30	0.4%
1-4 family residential	1,228	15.1%	1,021	14.1%
Multi-family residential	172	2.1%	101	1.4%
Nonfarm nonresidential	2,314	28.4%	1,416	19.6%
Total real estate	4,722	57.9%	3,168	43.8%
Commercial	3,039	37.2%	3,618	49.9%
Consumer	401	4.9%	458	6.3%
Total allowance for loan losses	$ 8,162	100%	$ 7,244	100%

Securities

We use our securities portfolio to provide a source of liquidity, an appropriate return on funds invested, manage interest rate risk, meet collateral requirements, and meet regulatory capital requirements. As of December 31, 2016, the carrying amount of investment securities totaled $198.3 million, a decrease of $12.5 million or 5.9% compared to $210.9 million as of December 31, 2015. Securities represented 17.9%, and 19.6% of total assets as of December 31, 2016 and 2015, 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 stockholders' equity. The following table summarizes the amortized cost and estimated fair value of investment securities as of the dates shown:

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

	As of December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. government agencies	$ 13,656	$ 43	$ 32	$ 13,667
Corporate bonds	11,177	—	105	11,072
Municipal securities	65,679	874	112	66,441
Mortgage-backed securities	120,599	39	1,568	119,070
Other securities	942	—	335	607
Total	$ 212,053	$ 956	$ 2,152	$ 210,857

All of our mortgage-backed securities are agency securities. We do not hold any Fannie Mae or Freddie Mac preferred stock, corporate equity, collateralized debt obligations, collateralized loan obligations, structured investment vehicles, private label collateralized mortgage obligations, subprime, Alt-A, or second lien elements in our investment portfolio. As of December 31, 2016, the investment portfolio did not contain any securities that are directly backed by subprime or Alt-A mortgages.

Management evaluates securities for other-than-temporary impairment, at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

The following table sets 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 December 31, 2016									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
U.S. government agencies	$ —	—%	$ 2,025	1.03%	$ 5,541	2.42%	$ —	—%	$ 7,566	2.05%
Corporate bonds	—	—%	6,525	2.26%	4,602	1.99%	—	—%	11,127	2.15%
Municipal securities	7,348	1.78%	35,213	1.74%	19,806	2.26%	17,269	2.53%	79,636	2.04%
Mortgage-backed securities	1	2.24%	4,571	1.77%	30,550	1.33%	64,250	1.62%	99,372	1.54%
Other securities	—	—%	—	—%	—	—%	641	2.34%	641	2.34%
Total	$ 7,349	1.78%	$ 48,334	1.78%	$ 60,499	1.78%	$ 82,160	1.82%	$ 198,342	1.80%

	As of December 31, 2015									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
U.S. government agencies	$ —	—%	$ 6,843	1.58%	$ 4,827	2.52%	$ 1,997	1.49%	$ 13,667	1.90%
Corporate bonds	—	—%	6,581	1.73%	4,491	1.46%	—	—%	11,072	1.62%
Municipal securities	2,038	1.15%	23,195	1.80%	20,681	2.22%	20,527	2.36%	66,441	2.08%
Mortgage-backed securities	3	(2.75)%	4,906	1.72%	27,665	1.50%	86,496	1.69%	119,070	1.65%
Other securities	—	—%	—	—%	—	—%	607	1.84%	607	1.84%
Total	$ 2,041	1.14%	$ 41,525	1.74%	$ 57,664	1.84%	$ 109,627	1.81%	$ 210,857	1.80%

The contractual maturity of mortgage-backed securities, collateralized mortgage obligations and asset backed securities is not a reliable indicator of their expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities and asset-backed securities are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to pre-pay. Monthly pay downs on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal and, consequently, the average life of this security will be lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of this security. The weighted average life of our investment portfolio was 4.76 years with an estimated effective duration of 44.72 months as of December 31, 2016.

As of December 31, 2016 and 2015, we did not own securities of any one issuer for which aggregate adjusted cost exceeded 10% of the consolidated stockholders' equity as of such respective dates.

Deposits

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

Total deposits as of December 31, 2016 were $932.8 million, an increase of $28.6 million compared to $904.2 million as of December 31, 2015. Deposit growth was primarily due to an increase in the offering rate on certificates of deposit, along with continued deposit penetration in our primary market area.

Noninterest-bearing deposits as of December 31, 2016 were $223.7 million compared to $222.5 million as of December 31, 2015, an increase of $1.2 million or 0.5%.

Average deposits for the year ended December 31, 2016 were $945.0 million, an increase of $123.3 million or 15.0% over the full year average for the year ended December 31, 2015 of $821.8 million. The average rate paid on total interest-bearing deposits increased over this period from 0.61% for the year ended December 31, 2015 to 0.71% for the year ended December 31, 2016. The increase in average rates was driven by a strategic increase in the pricing of certificates of deposit in order to improve liquidity. In addition, the stability and the continued growth of noninterest-bearing demand accounts served to reduce the cost of deposits to 0.55% for the year ended December 31, 2016 and 0.47% for the year ended December 31, 2015.

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

	For the Year Ended December 31, 2016		For the Year Ended December 31, 2015	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)		(Dollars in thousands)	
Interest-bearing demand accounts	$ 36,200	0.19%	$ 28,491	0.25%
NOW accounts	109,763	0.24%	103,157	0.20%
Limited access money market accounts and savings	241,577	0.41%	218,991	0.41%
Certificates and other time deposits > $250k	55,678	1.33%	47,258	1.23%
Certificates and other time deposits ≤ $250k	280,778	1.10%	234,858	0.93%
Total interest-bearing deposits	723,996	0.71%	632,755	0.61%
Noninterest-bearing demand accounts	221,047	—%	188,995	—%
Total deposits	$ 945,043	0.55%	$ 821,750	0.47%

The ratio of average noninterest-bearing deposits to average total deposits for the years ended December 31, 2016 and 2015 was 23.4% and 23.0%, respectively.

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

	As of December 31, 2016	As of December 31, 2015
	(Dollars in thousands)	
1 year or less	$ 54,866	$ 33,534
More than 1 year but less than 3 years	9,451	14,279
3 years or more but less than 5 years	9,029	4,605
5 years or more	—	—
Total	$ 73,346	$ 52,418

Borrowings

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

Federal Home Loan Bank (FHLB) advances. The FHLB allows us to borrow on a blanket floating lien status collateralized by certain securities and loans. As of December 31, 2016 and 2015, total borrowing capacity of $321.1 million and $317.9 million, respectively, was available under this arrangement and $47.1 million and $49.1 million, respectively, was outstanding with a weighted average stated interest rate of 2.64% as of December 31, 2016 and 2.66% as of December 31, 2015. Our current FHLB advances mature within five years. We utilize these borrowings to meet liquidity needs and to fund certain fixed rate loans in our portfolio.

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

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

	FHLB Advances (Dollars in Thousands)
December 31, 2016	
Amount outstanding at year-end	$ 47,064
Weighted average stated interest rate at year-end	2.64%
Maximum month-end balance during the year	$ 80,973
Average balance outstanding during the year	$ 53,516
Weighted average interest rate during the year	1.05%
December 31, 2015	
Amount outstanding at year-end	$ 49,144
Weighted average stated interest rate at year-end	2.66%
Maximum month-end balance during the year	$ 79,658
Average balance outstanding during the year	$ 54,942
Weighted average interest rate during the year	1.03%

First Tennessee Bank National Association (FTN) advances. FTN allowed us to borrow on a revolving basis up to $3.0 million. This line of credit, established on September 3, 2015, was unsecured, but we agreed that we would not pledge any of the capital stock of our wholly-owned subsidiary, Business First Bank, to secure any other obligation. The line of credit was established for the purpose of repurchasing shares of our common stock from certain of our shareholders and for general corporate purposes. This line of credit was paid off on September 12, 2016. At December 31, 2015 the line was fully funded with a balance of $3.0 million bearing interest at a variable rate of LIBOR plus 2.50%. The rate was 2.93% as December 31, 2015 and adjusted quarterly.

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

	FTN Advances (Dollars in Thousands)
December 31, 2016	
Amount outstanding at year-end	$ —
Weighted average interest rate at year-end	—%
Maximum month-end balance during the year	$ 3,000
Average balance outstanding during the year	$ 2,098
Weighted average interest rate during the year	3.10%
December 31, 2015	
Amount outstanding at year-end	$ 3,000
Weighted average interest rate at year-end	2.93%
Maximum month-end balance during the year	$ 3,000
Average balance outstanding during the year	$ 986
Weighted average interest rate during the year	2.86%

First National Bankers Bank (FNBB) long term advances. On September 12, 2016 we borrowed $3.0 million from FNBB with a maturity date of September 12, 2026. This advance is due in nine annual principal payments of $300,000 beginning on September 12, 2017 and one final principal and interest payment of $303,000 due on September 12, 2026. This advance is secured by a pledge of and security interest in the common stock of our wholly-owned subsidiary, Business First Bank. As of December 31, 2016, the balance outstanding was $3.0 million. The advance carries a variable interest equal to the Wall Street Journal Prime rate. The rate was 3.75% at December 31, 2016. The FNBB advance was established for the purpose of paying off the revolving line of credit with FTN. There was no similar arrangement for December 31, 2015.

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

		FNBB Advances (Dollars in Thousands)
December 31, 2016		
Amount outstanding at year-end	$	3,000
Weighted average interest rate at year-end		3.75%
Maximum month-end balance during the year	$	3,000
Average balance outstanding during the year	$	910
Weighted average interest rate during the year		3.54%

First National Bankers Bank (FNBB) revolving advances. FNBB allows us to borrow on a revolving basis up to $5.0 million. This line of credit, established on September 12, 2016, is secured by a pledge of and security interest in the common stock of our wholly-owned subsidiary, Business First Bank. As of December 31, 2016, the balance on this line of credit was $862,000. The line of credit bears a variable interest equal to the Wall Street Journal Prime rate. The rate was 3.75% at December 31, 2016. The FNBB line matures in one year and was established for the purpose of repurchasing shares of our common stock from certain of our shareholders and for general corporate purposes. There was no similar arrangement for December 31, 2015.

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

		FNBB Advances (Dollars in Thousands)
December 31, 2016		
Amount outstanding at year-end	$	862
Weighted average interest rate at year-end		3.75%
Maximum month-end balance during the year	$	862
Average balance outstanding during the year	$	24
Weighted average interest rate during the year		3.75%

Correspondent Bank Federal Funds Purchased Relationships

We maintain Federal Funds Purchased Relationships with the following financial institutions and limits as of December 31, 2016:

		(Dollars in Thousands)
The Independent Banker's Bank TIB	$	25,000
First Tennessee National Bank	$	17,000
First National Bankers Bank	$	30,000
Compass Bank	$	22,500
ServisFirst Bank	$	6,000
Center State Bank	$	9,000

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

	Fed Funds Purchased (Dollars in Thousands)
December 31, 2016	
Amount outstanding at year-end	$ —
Weighted average interest rate at year-end	—%
Maximum month-end balance during the year	$ 2,385
Average balance outstanding during the year	$ 544
Weighted average interest rate during the year	1.35%
December 31, 2015	
Amount outstanding at year-end	$ —
Weighted average interest rate at year-end	—%
Maximum month-end balance during the year	$ 6,493
Average balance outstanding during the year	$ 732
Weighted average interest rate during the year	1.35%

Liquidity and Capital Resources

Liquidity

Liquidity involves our ability to raise 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 years ended December 31, 2016 and 2015, liquidity needs were primarily met by core deposits, security and loan maturities, and amortizing investment and loan portfolios. Although access to brokered deposits, purchased funds from correspondent banks and overnight advances from the FHLB are available and have been utilized on occasion to take advantage of investment opportunities, we do not generally rely on these external funding sources. As of December 31, 2016 and 2015, we maintained 6 and 5 lines of credit, respectively, with commercial banks which provide for extensions of credit with an availability to borrow up to an aggregate $109.5 million and $83.7 million as of December 31, 2016 and 2015, respectively. There were no funds under these lines of credit outstanding as of December 31, 2016 and 2015.

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 period indicated. Average assets totaled $1.1 billion and $999.5 million for the years ended December 31, 2016 and 2015, respectively.

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
Sources of Funds:		
Deposits:		
Noninterest-bearing	19.6%	18.9%
Interest-bearing	64.2%	63.3%
Advances from FHLB	4.7%	5.5%
Other borrowings	0.6%	0.3%
Other liabilities	0.6%	1.4%
Stockholders' equity	10.3%	10.6%
Total	100%	100%
Uses of Funds:		
Loans	69.9%	69.4%
Securities available for sale	18.7%	17.9%
Interest-bearing deposits in other banks	2.3%	4.8%
Other noninterest-earning assets	9.1%	7.9%
Total	100%	100%
Average noninterest-bearing deposits to average deposits	23.4%	23.0%
Average loans to average deposits	84.2%	85.3%

Our primary source of funds is deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future. Our average loans increased 13.5% for the year ended December 31, 2016 compared to the same period in 2015. We predominantly invest excess funds 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 4.76 years and an effective duration of 44.72 months as of December 31, 2016 and a weighted average life of 5.31 years and an effective duration of 51.22 months as of December 31, 2015.

As of December 31, 2016, we had outstanding $196.2 million in commitments to extend credit and $12.5 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2015, we had outstanding $176.8 million in commitments to extend credit and $9.2 million in commitments associated with outstanding standby and commercial letters of credit. Because commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of December 31, 2016 and December 31, 2015, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature. As of December 31, 2016, we had cash and cash equivalents of $42.2 million compared to $40.9 million as of December 31, 2015.

Capital Resources

Total stockholders' equity increased to $113.6 million as of December 31, 2016, compared to $112.4 million as of December 31, 2015, an increase of $1.1 million or 1.0%. This increase was primarily the result of $5.1 million in net income, net of the funds returned to our shareholders through share buy backs and the commencement of quarterly dividends.

We commenced the payment of quarterly dividends in the second quarter of 2016 based upon the previous quarter's financial performance. On January 26, 2017, our board of directors declared a quarterly dividend based upon our financial performance for the three months ended December 31, 2016 in the amount of $0.05 per share to the common shareholders of record as of February 15, 2017. The dividend was paid on February 28, 2017, or as soon as practicable thereafter.

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

Capital management consists of providing equity to support current and future operations. Banking regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. We are subject to regulatory capital requirements at the bank holding company and bank levels. As of December 31, 2016 and 2015, we and Business First Bank were in compliance with all applicable regulatory capital requirements, and Business First Bank was classified as "well-capitalized," for purposes of the 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 regulatory capital standards applicable to us.

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

	As of December 31, 2016		As of December 31, 2015	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Business First Bancshares, Inc.				
Total capital (to risk weighted assets)	$ 115,437	11.63%	$ 115,012	12.06%
Tier 1 capital (to risk weighted assets)	107,275	10.81%	107,768	11.30%
Common Equity Tier 1 capital (to risk weighted assets)	107,275	10.81%	107,768	11.30%
Tier 1 Leveraged capital (to average assets)	107,275	9.67%	107,768	10.08%
Business First Bank				
Total capital (to risk weighted assets)	$ 117,909	11.89%	$ 115,828	12.17%
Tier 1 capital (to risk weighted assets)	109,747	11.07%	108,584	11.41%
Common Equity Tier 1 capital (to risk weighted assets)	109,747	11.07%	108,584	11.41%
Tier 1 Leveraged capital (to average assets)	109,747	9.91%	108,584	10.17%

Contractual Obligations

The following table summarizes contractual obligations and other commitments to make future payments as of December 31, 2016 and 2015 (other than non-maturity deposit obligations), which consist of future cash payments associated with our contractual obligations pursuant to our FHLB advances, revolving line of credit, long-term borrowings, and non-cancelable future operating leases. Payments related to leases are based on actual payments specified in underlying contracts. Advances from the Federal Home Loan Bank totaled approximately $47.1 million and $49.1 million as of December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the FHLB advances were collateralized by a blanket floating lien on certain securities and loans, had a weighted average stated rate of 2.64% and 2.66%, respectively, and maturities ranging from 2017 through 2018. The advance under the FNBB long-term borrowing totaled $3.0 million at December 31, 2016. This advance was secured by a pledge of and security interest in the common stock of our wholly-owned subsidiary, Business First Bank, bearing interest at a variable rate of 3.75% at December 31, 2016, and maturing in 2026. We also had a line of credit with FNBB with an outstanding balance of $862,000 at December 31, 2016. This line of credit was secured by a pledge of and security interest in the common stock our wholly-owned subsidiary, Business First Bank, bearing interest at a variable rate of 3.75% at December 31, 2016, and maturing in 2017. The advances under the FTN revolving line of credit totaled $3.0 million as of December 31, 2015. The FTN advances were unsecured bearing interest at a variable rate of 2.93% at December 31, 2015, and matured and were paid in full in September 2016.

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

	As of December 31, 2015				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Non-cancelable future operating leases	$ 1,344	$ 2,220	$ 1,612	$ 5,130	$ 10,306
Time deposits	192,047	67,000	8,309	5,967	273,323
Advances from FHLB	2,081	47,063	—	—	49,144
Advances from FTN	3,000	—	—	—	3,000
Securities sold under agreements to repurchase	2,435	—	—	—	2,435
Standby and commercial letters of credit	8,563	676	—	—	9,239
Commitments to extend credit	74,766	55,132	19,223	27,699	176,820
Total	$ 284,236	$ 172,091	$ 29,144	$ 38,796	$ 524,267

Off-Balance Sheet Items

In the normal course of business, we enter into various transactions which, in accordance with generally accepted accounting principles, or GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby and commercial letters of credit which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

Our commitments associated with outstanding standby and commercial letters of credit and commitments to extend credit expiring by period as of the date indicated are summarized below. Because commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

	As of December 31, 2016				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Standby and commercial letters of credit	$ 9,439	$ 3,081	$ 18	$ —	$ 12,538
Commitments to extend credit	100,204	72,283	3,409	20,305	196,201
Total	$ 109,643	$ 75,364	$ 3,427	$ 20,305	$ 208,739

	As of December 31, 2015				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Standby and commercial letters of credit	$ 8,563	$ 676	$ —	$ —	$ 9,239
Commitments to extend credit	74,766	55,132	19,223	27,699	176,820
Total	$ 83,329	$ 55,808	$ 19,223	$ 27,699	$ 186,059

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. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by us, upon extension of credit, is based on management's credit evaluation of the customer.

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset liability and funds management policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We manage our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. We do not enter into instruments such as leveraged derivatives, interest rate swaps, financial options, financial futures contracts or forward delivery contracts for the purpose of reducing interest rate risk. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the asset-liability committee of Business First Bank, in accordance with policies approved by our board of directors. The committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk which include an analysis of relationships between interest-earning assets and interest-bearing liabilities, and an interest rate shock simulation model.

We use interest rate risk simulation models and shock analysis to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. Contractual maturities and re-pricing opportunities of loans are incorporated in the model as are prepayment assumptions, maturity data and call options within the investment portfolio. Average life 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 internal rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net income at risk for the subsequent one-year period should not decline by more than 5.0% for a 100 basis point shift, 10% for a 200 basis point shift, and 12.5% for a 300 basis point shift. Internal policy regarding interest rate simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated fair value of equity at risk for the subsequent one-year period should not decline by more than 10.00% for a 100 basis point shift, 15.00% for a 200 basis point shift, and 25.00% for a 300 basis point shift.

The following table summarizes the simulated change in net interest income and fair value of equity over a 12-month horizon as of the dates indicated:

	As of December 31, 2016		As of December 31, 2015	
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	3.80%	(9.03%)	6.90%	(11.70%)
+200	3.60%	(5.27%)	4.80%	(6.18%)
+100	2.60%	(2.73%)	1.40%	(2.87%)
Base	0.00%	0.00%	0.00%	0.00%
-100	0.20%	0.16%	(2.40%)	1.66%

The results are primarily due to behavior of demand, money market and savings deposits during such rate fluctuations. We have found that, historically, interest rates on these deposits change more slowly than changes in the discount and federal funds rates. This assumption is incorporated into the simulation model and is generally not fully reflected in a gap analysis. In addition, during the first quarter of 2016, we updated the model loan prepayment assumptions to more accurately reflect historical activity, which caused a significant positive change in the fair value of equity rate shock scenarios during 2016 compared to the shock scenarios at December 31, 2015. This positive change in the fair value of equity rate shock scenarios was tempered in the fourth quarter of 2016 as a result of the year end influx of interest bearing non-maturity public fund deposits and short-term borrowings at December 31, 2016. The assumptions incorporated into the model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and the application and timing of various strategies.

Impact of Inflation

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

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

Non-GAAP Financial Measures

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

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

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

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

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

	As of December 31,			
	2016	2015	2014	2013
	(Dollars in thousands, except per share data)			
Tangible Common Equity				
Total stockholders' equity	$ 113,559	$ 112,449	$ 78,845	$ 71,923
Adjustments:				
Goodwill	(6,824)	(3,376)	—	—
Core deposit and other intangibles	(2,279)	(2,555)	—	—
Total tangible common equity	$ 104,456	$ 106,518	$ 78,845	$ 71,923
Common shares outstanding[1]	6,916,673	7,035,913	5,314,925	5,314,925
Book value per common share	$ 16.42	$ 15.98	$ 14.83	$ 13.53
Tangible book value per common share	$ 15.10	$ 15.14	$ 14.83	$ 13.53

(1) Excludes the dilutive effect, if any, of 998,480, 953,280, 952,120 and 919,350 shares of common stock issuable upon exercise of outstanding stock options as of December 31, 2016, December 31, 2015, December 31, 2014, and December 31, 2013, respectively.

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

We believe this measure is important to many investors in the marketplace who are interested in the relative changes from period to period in common equity and total assets, each exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing both total stockholders' equity and assets while not increasing our tangible common equity or tangible assets.

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

	As of December 31,			
	2016	2015	2014	2013
	(Dollars in thousands, except per share data)			
Tangible Common Equity				
Total stockholders' equity	$ 113,559	$ 112,449	$ 78,845	$ 71,923
Adjustments:				
Goodwill	(6,824)	(3,376)	—	—
Core deposit and other intangibles	(2,279)	(2,555)	—	—
Total tangible common equity	$ 104,456	$ 106,518	$ 78,845	$ 71,923
Tangible Assets				
Total assets	$ 1,105,841	$ 1,076,089	$ 684,502	$ 684,180
Adjustments:				
Goodwill	(6,824)	(3,376)	—	—
Core deposit and other intangibles	(2,279)	(2,555)	—	—
Total tangible assets	$ 1,096,738	$ 1,070,158	$ 684,502	$ 684,180
Common Equity to Total Assets	10.3%	10.4%	11.5%	10.5%
Tangible Common Equity to Tangible Assets	9.5%	10.0%	11.5%	10.5%

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and with general practices within the financial services industry. Application of these principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances. These assumptions form the basis for our judgments about the carrying values of assets and liabilities that are not readily available from independent, objective sources. We evaluate our estimates on an ongoing basis. Use of alternative assumptions may have resulted in significantly different estimates. Actual results may differ from these estimates.

We have identified the following accounting policies and estimates that, due to the difficult, subjective or complex judgments and assumptions inherent in those policies and estimates and the potential sensitivity of our financial statements to those judgments and assumptions, are critical to an understanding of our financial condition and results of operations. We believe that the judgments, estimates and assumptions used in the preparation of our financial statements are appropriate.

Investment Securities

Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them until maturity. Securities to be held for indefinite periods of time are classified as available for sale and carried at fair value, with the unrealized holding gains and losses reported in other comprehensive income, net of tax. Management determines the appropriate classification of securities at the time of purchase.

Interest income includes amortization of purchase premiums and discounts. Realized gains and losses are derived from the amortized cost of the security sold. Credit related declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses, with the remaining unrealized loss recognized as a component of other comprehensive income. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of us to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans and Allowance for Loan Losses

Loans, excluding certain purchased loans which have shown evidence of deterioration since origination as of the date of the acquisition, that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. Interest on loans is recognized using the simple-interest method on the daily balances of the principal amounts outstanding. Fees associated with the originating of loans and certain direct loan origination costs are netted, and the net amount is deferred and recognized over the life of the loan as an adjustment of yield.

Loans acquired in business combinations are initially recorded at fair value which includes an estimate of credit losses expected to be realized over the remaining lives of the loans and, therefore, no corresponding allowance for loan losses is recorded for these loans at acquisition. Methods utilized to estimate any subsequently required allowance for loan losses for acquired loans not deemed credit impaired at acquisition are similar to originated loans; however, the estimate of losses is based on the unpaid principal balance and then compared to any remaining unaccreted purchase discount. To the extent the calculated loss is greater than the remaining unaccreted discount, an allowance is recorded for such amount.

Certain acquired impaired loans, where there is evidence of credit deterioration since origination and it is probable we will be unable to collect all contractually required payments, are accounted for in accordance with FASB ASC 310-30 *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The expected cash flows for each loan meeting this criteria are estimated to determine the excess of the contractually required principal and interest at acquisition as an amount that should not be accreted (nonaccretable difference). The expected cash flows for the purchased impaired credits approximated fair value as of the merger date and, as a result, no accretable yield was recognized at acquisition. A discount was recorded on these loans at acquisition to record them at their estimated fair values. As a result, the purchased impaired credits are excluded from the calculation of the allowance for loan losses as of the acquisition date. Under current accounting principles, if we determine that losses arose after the acquisition date, the additional losses will be reflected as a provision to the allowance for loan losses.

The accrual of interest on loans is discontinued when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on nonaccrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectability is questionable, then cash payments are applied to principal. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured in accordance with the terms of the loan agreement.

The allowance for loan losses is an estimated amount management believes is adequate to absorb inherent losses on existing loans that may be uncollectible based upon review and evaluation of the loan portfolio. Management's periodic evaluation of the allowance is based on general economic conditions, the financial condition of borrowers, the value and liquidity of collateral, delinquency, prior loan loss experience, and the results of periodic reviews of the portfolio.

The allowance for loan losses is comprised of two components. The first component, the general reserve, is determined in accordance with current authoritative accounting guidance that considers historical loss rates for the twelve quarter lookback period adjusted for qualitative factors based upon general economic conditions and other qualitative risk factors both internal and external to us. Such qualitative factors include current local economic conditions and trends including unemployment, changes in lending staff, policies and procedures, changes in credit concentrations, changes in the trends and severity of problem loans, and changes in trends in volume and terms of loans. These qualitative factors serve to compensate for additional areas of uncertainty inherent in the portfolio that are not reflected in our historical loss factors. For purposes of determining the general reserve, the loan portfolio, less cash secured loans, government guaranteed loans and impaired loans, is multiplied by our adjusted historical loss rate. The second component of the allowance for loan losses, the specific reserve, is determined in accordance with current authoritative accounting guidance based on probable losses on specific classified loans.

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries).

Due to our growth over the past several years, a portion of the loans in our portfolio and our lending relationships are of relatively recent origin. The new loan portfolios have limited delinquency and credit loss history and have not yet exhibited an observable loss trend. The credit quality of loans in these loan portfolios are impacted by delinquency status and debt service coverage generated by the borrowers' business, and fluctuations in the value of real estate collateral. Management considers delinquency status to be the most meaningful indicator of the credit quality of one-to-four single family residential, home equity loans and lines of credit and other consumer loans. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as "seasoning". As a result, a portfolio of older loans will usually behave more predictably than a portfolio of newer loans. Because the majority of our portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition.

Delinquency statistics are updated at least monthly. Internal risk ratings are considered the most meaningful indicator of credit quality for new commercial, construction, and commercial real estate loans. Internal risk ratings are a key factor in identifying loans that are individually evaluated for impairment and impact management's estimates of loss factors used in determining the amount of the allowance for loan losses. Internal risk ratings are updated on a continuous basis.

Loans are considered impaired when, based on current information and events, it is probable we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Our policy requires measurement of the allowance for an impaired collateral dependent loan based on the fair value of the collateral. Other loan impairments are measured based on the present value of expected future cash flows or the loan's observable market price. At December 31, 2016 and 2015, all significant impaired loans have been determined to be collateral dependent and the allowance for loss has been measured utilizing the estimated fair value of the collateral.

From time to time, we modify our loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by us that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. We review each troubled debt restructured loan and determine on a case by case basis if the loan is subject to impairment and the need for a specific allowance for loan loss allocation. An allowance for loan loss allocation is based on either the present value of estimated future cash flows or the estimated fair value of the underlying collateral.

We have certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and makes changes as appropriate. Management receives frequent reports related to loan originations, quality, concentrations, delinquencies, non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geography.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing our real estate portfolio are generally diverse in terms of type and geographic location, throughout the state of Louisiana. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry.

We utilize methodical credit standards and analysis to supplement our policies and procedures in underwriting consumer loans. Our loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimize risk.

Emerging Growth Company

The JOBS Act permits an "emerging growth company" to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. However, we have "opted out" of this provision. As a result, we will comply with new or revised accounting standards to the same extent that compliance is required for non-emerging growth companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk.

The disclosure contemplated by Item 7A is not required because we are a smaller reporting company.

ITEM 8. Financial Statements and Supplementary Data

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

We have audited the accompanying consolidated balance sheets of Business First Bancshares, Inc. and Subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. We have also audited the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of a company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Respectfully submitted,

/s/ Hannis T. Bourgeois, LLP

Baton Rouge, Louisiana
March 9, 2017

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

	December 31,	
	2016	2015
ASSETS		
Cash and Due from Banks	$ 42,173	$ 40,911
Federal Funds Sold	2,556	2,496
Securities Available for Sale, at Fair Values	198,342	210,857
Mortgage Loans Held for Sale	180	-
Loans and Lease Receivable, Net of Allowance for Loan Losses of $8,162 in 2016 and $7,244 in 2015	802,789	765,148
Premises and Equipment, Net	9,281	9,234
Accrued Interest Receivable	3,384	2,823
Other Equity Securities	6,120	5,350
Other Real Estate Owned	1,187	2,033
Cash Value of Life Insurance	22,567	22,339
Goodwill	6,824	3,376
Core Deposit Intangible	2,279	2,555
Other Assets	8,159	8,967
Total Assets	$ 1,105,841	$ 1,076,089
LIABILITIES		
Deposits:		
Noninterest Bearing	$ 223,705	$ 222,488
Interest Bearing	709,090	681,748
Total Deposits	932,795	904,236
Securities Sold Under Agreements to Repurchase	2,720	2,435
Short Term Borrowings	862	3,000
Long Term Borrowings	3,000	-
Federal Home Loan Bank Borrowings	47,064	49,144
Accrued Interest Payable	920	566
Other Liabilities	4,921	4,259
Total Liabilities	992,282	963,640
STOCKHOLDERS' EQUITY		
Common Stock, $1 Par Value; 10,000,000 Shares Authorized; 6,916,673 and 7,035,913 Shares Issued and Outstanding at December 31, 2016 and 2015, respectively	6,917	7,036
Additional Paid-in Capital	85,133	85,913
Retained Earnings	23,839	20,289
Accumulated Other Comprehensive Loss	(2,330)	(789)
Total Stockholders' Equity	113,559	112,449
Total Liabilities and Stockholders' Equity	$ 1,105,841	$ 1,076,089

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

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

	Years Ended December 31,		
	2016	2015	2014
Interest Income:			
Interest and Fees on Loans	$ 39,468	$ 35,244	$ 25,731
Interest and Dividends on Securities	3,781	3,186	1,673
Interest on Federal Funds Sold and Due From Banks	169	187	71
Total Interest Income	43,418	38,617	27,475
Interest Expense:			
Interest on Deposits	5,152	3,858	3,641
Interest on Borrowings	674	609	310
Total Interest Expense	5,826	4,467	3,951
Net Interest Income	37,592	34,150	23,524
Provision for Loan Losses	1,220	1,200	700
Net Interest Income after Provision for Loan Losses	36,372	32,950	22,824
Other Income:			
Service Charges on Deposit Accounts	2,033	1,553	587
Gain (Loss) on Sales of Securities	232	(15)	13
Other Income	3,156	1,642	1,128
Total Other Income	5,421	3,180	1,728
Other Expenses:			
Salaries and Employee Benefits	19,471	16,145	11,196
Occupancy and Equipment Expense	4,574	3,941	2,469
Other Expenses	11,024	10,423	5,490
Total Other Expenses	35,069	30,509	19,155
Income Before Income Taxes	6,724	5,621	5,397
Provision for Income Taxes	1,613	1,525	1,364
Net Income	$ 5,111	$ 4,096	$ 4,033
Earnings Per Share:			
Basic	$ 0.73	$ 0.61	$ 0.76
Diluted	$ 0.70	$ 0.59	$ 0.72

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

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

	Years Ended December 31,		
	2016	2015	2014
Consolidated Net Income	$ 5,111	$ 4,096	$ 4,033
Other Comprehensive Income (Loss):			
Unrealized Gain (Loss) on Investment Securities	(2,568)	(206)	3,630
Reclassification Adjustment for Gains (Loss) included in Net Income	232	(15)	13
Income Tax Effect	795	75	(1,239)
Other Comprehensive Income (Loss)	(1,541)	(146)	2,404
Consolidated Comprehensive Income (Loss)	$ 3,570	$ 3,950	$ 6,437

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

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at December 31, 2013	$ 5,315	$ 56,740	$ 12,915	$ (3,047)	$ 71,923
Comprehensive Income:					
Net Income	-	-	4,033	-	4,033
Other Comprehensive Income (Loss)	-	-	-	2,404	2,404
Stock Based Compensation Cost	-	485	-	-	485
Balances at December 31, 2014	5,315	57,225	16,948	(643)	78,845
Comprehensive Income:					
Net Income	-	-	4,096	-	4,096
Other Comprehensive Income (Loss)	-	-	-	(146)	(146)
Merger Consideration - net	1,891	30,519	-	-	32,410
Stock Based Compensation Cost	-	49	-	-	49
Stock Repurchase	(170)	(1,880)	(755)	-	(2,805)
Balances at December 31, 2015	7,036	85,913	20,289	(789)	112,449
Comprehensive Income:					
Net Income	-	-	5,111	-	5,111
Other Comprehensive Income (Loss)	-	-	-	(1,541)	(1,541)
Cash Dividends Declared, $0.05 Per Share	-	-	(1,056)	-	(1,056)
Stock Based Compensation Cost	-	456	-	-	456
Reclass of Shares Issued	5	(5)	-	-	-
Exercise of Stock Warrants	1	14	-	-	15
Stock Repurchase	(125)	(1,245)	(505)	-	(1,875)
Balances at December 31, 2016	$ 6,917	$ 85,133	$ 23,839	$ (2,330)	$ 113,559

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

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

	Years Ended December 31,		
	2016	2015	2014
Cash Flows From Operating Activities:			
Consolidated Net Income	$ 5,111	$ 4,096	$ 4,033
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:			
Provision for Loan Losses	1,220	1,200	700
Depreciation and Amortization	1,299	1,192	810
Amortization of Purchase Accounting Valuations	(1,818)	(2,332)	-
Noncash Compensation Expense	456	49	485
Net Amortization of Securities	1,929	1,511	493
(Gain) Loss on Sales of Securities	(232)	15	(13)
(Gain) Loss on Sale of Premises and Equipment	(24)	157	-
Gain on Sale of Other Real Estate Owned Net of Writedowns	(72)	(58)	(262)
Increase in Cash Value of Life Insurance	(788)	(637)	(569)
Provision (Credit) for Deferred Income Taxes	953	(74)	(764)
Changes in Assets and Liabilities:			
(Increase) Decrease in Accrued Interest Receivable	(561)	(314)	134
(Increase) Decrease in Other Assets	659	(971)	1,521
Increase (Decrease) in Accrued Interest Payable	354	(76)	(37)
Increase (Decrease) in Other Liabilities	(350)	(350)	361
Net Cash Provided by Operating Activities	8,136	3,408	6,892
Cash Flows From Investing Activities:			
Purchases of Securities Available for Sale	(45,935)	(58,648)	(3,699)
Proceeds from Maturities / Sales of Securities Available for Sale	30,589	9,528	28,846
Proceeds from Paydowns of Securities Available for Sale	23,828	19,376	5,799
Net Cash Received in Merger	-	87,377	-
Purchases of Other Equity Securities	(852)	(3,385)	(681)
Redemption of Other Equity Securities	82	1,912	1,866
Life Insurance Proceeds	560	-	-
Net Increase in Loans	(38,326)	(70,443)	(24,655)
Proceeds from Sale of Premises and Equipment	68	-	-
Purchases of Premises and Equipment	(1,390)	(962)	(218)
Proceeds from Sales of Other Real Estate	1,659	2,697	337
Improvements to Other Real Estate	(102)	-	-
Consideration Settlement to Former AGFC Shareholders	(3,448)	(243)	-
Net (Increase) Decrease in Federal Funds Sold	(60)	(1,339)	8,378
Net Cash Provided by (Used in) Investing Activities	(33,327)	(14,130)	15,973

(CONTINUED)

	Years Ended December 31,		
	2016	2015	2014
Cash Flows From Financing Activities:			
Net Increase (Decrease) in Deposits	28,559	33,775	(6,924)
Net Increase (Decrease) in Securities Sold Under Agreements to Repurchase	285	(1,841)	-
Net Repayments on Federal Home Loan Bank Borrowings	(1,349)	(6,511)	-
Net Increase (Decrease) in Short Term Borrowings	(2,138)	3,000	-
Proceeds from Long Term Borrowings	3,000	-	-
Repurchase of Common Stock	(863)	(2,805)	-
Proceeds from Exercise of Stock Warrants	15	-	-
Payment of Dividends on Common Stock	(1,056)	-	-
Net Cash Provided by (Used in) Financing Activities	26,453	25,618	(6,924)
Net Increase in Cash and Cash Equivalents	1,262	14,896	15,941
Cash and Cash Equivalents at Beginning of Period	40,911	26,015	10,074
Cash and Cash Equivalents at End of Period	$ 42,173	$ 40,911	$ 26,015
Supplemental Disclosures for Cash Flow Information:			
Cash Payments for:			
Interest on Deposits	$ 4,779	$ 3,813	$ 3,679
Interest on Borrowings	$ 693	$ 467	$ 309
Income Tax Payments	$ 1,016	$ 2,513	$ 1,976
Supplemental Schedule for Noncash Investing and Financing Activities:			
Change in the Unrealized Gain (Loss) on Securities Available for Sale	$ (2,336)	$ (221)	$ 3,643
Change in Deferred Tax Effect on the Unrealized (Gain) Loss on Securities Available for Sale	$ 795	$ 75	$ (1,239)
Transfer of Loans to Other Real Estate	$ 648	$ 1,033	$ 2,203

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

Note 1 – Nature of Operations – Summary of Significant Accounting Policies –

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

Principles of Consolidation

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

Nature of Operations

The Bank operates in sixteen full service locations, one loan production office, and one wealth solutions office in Louisiana (Baton Rouge metro region, Shreveport, Covington, Lafayette, Lake Charles, Houma and New Orleans (LPO)). As a state bank, it is subject to regulation by the Office of Financial Institutions, State of Louisiana, and the Federal Deposit Insurance Corporation, and undergoes periodic examinations by these agencies. The Company is also regulated by the Federal Reserve and is subject to periodic examinations.

Estimates

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. Estimates are used in accounting for, among other items, the allowance for loan losses, useful lives for depreciation and amortization, fair value of financial instruments, deferred taxes, and contingencies. Estimates that are particularly susceptible to significant change for the Company include the determination of the allowance for loan losses and the assessment of deferred tax assets and liabilities, and therefore are critical accounting policies. Management does not anticipate any material changes to estimates in the near term. Factors that may cause sensitivity to the aforementioned estimates include but are not limited to: external market factors such as market interest rates and employment rates, changes to operating policies and procedures, economic conditions in our markets, and changes in applicable banking regulations. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual reporting period presented.

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

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

Acquisition Accounting

Acquisitions are accounted for under the purchase method of accounting. Purchased assets and assumed liabilities are recorded at their respective acquisition date fair values, and identifiable intangible assets are recorded at fair value. If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available.

Securities

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

Securities classified as held to maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are recorded at cost adjusted for amortization of premium and accretion of discount, computed by various methods approximating the interest method over their contractual lives. The Bank has no securities classified as held to maturity at December 31, 2016 and 2015.

Securities classified as trading are those securities held for resale in anticipation of short-term market movements. These securities are recorded at market value with any market adjustments included in earnings. The Bank has no securities classified as trading at December 31, 2016 and 2015.

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

Loans

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

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

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

Acquired Loans

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

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

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

Allowance for Loan Losses

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

Loans acquired in business combinations are initially recorded at fair value, which includes an estimate of credit losses expected to be realized over the remaining lives of the loans and, therefore, no corresponding allowance for loan losses is recorded for these loans at acquisition. Methods utilized to estimate any subsequently required allowance for loan losses for acquired loans not deemed credit-impaired at acquisition are similar to originated loans; however, the estimate of loss is based on the unpaid principal balance and then compared to any remaining unaccreted purchase discount. To the extent the calculated loss is greater than the remaining unaccreted discount, an allowance is recorded for such difference.

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

Premises and Equipment

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

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

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure or negotiated settlement are initially recorded at the fair value less estimated selling cost at the date of acquisition. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. The carrying amount of residential real estate included in other real estate owned was $660,000 at December 31, 2015; there was none at December 31, 2016.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill and other intangible assets deemed to have an indefinite useful life are not amortized but instead are subject to review for impairment annually, or more frequently if deemed necessary.

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives and reviewed for impairment. If impaired, the asset is written down to its estimated fair value. Core deposit intangibles representing the value of the acquired core deposit base are generally recorded in connection with business combinations involving banks and branch locations. The Company's policy is to amortize core deposit intangibles on a straight line basis over their estimated useful life of 10 years. Core deposit intangibles are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows.

Income Taxes

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

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

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

The Company evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of December 31, 2016, the Company does not believe it has taken any positions that would require the recording of any additional tax liability, nor does it believe there are any unrealized tax benefits that would either increase or decrease within the next year.

The Company files income tax returns in the U.S. federal jurisdiction and the state of Louisiana. With few exceptions, the Company is no longer subject to federal and state income tax examinations by tax authorities for years before 2013. Any interest and penalties assessed by income taxing authorities are not significant, and are included in other expenses in these financial statements, as applicable.

Stock Based Compensation

As described in Note 16, the Company has issued stock warrants and stock options that incorporate stock based compensation. The Company has adopted a fair value based method of accounting for these awards. The compensation cost is measured at the grant date based on the value of the award and is recognized over the required service period, which is usually the vesting period.

Statements of Cash Flows

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

Comprehensive Income

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

Advertising

The Company expenses all costs of advertising and promotion the first time the advertising or promotion takes place. For the years ended December 31, 2016, 2015 and 2014, the Company expensed costs of $849,000, $437,000 and $190,000, respectively.

Recent Accounting Pronouncements

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments,* which require an acquiring Company to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. GAAP requires that during the measurement period, the acquirer retrospectively adjust the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. Those adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that if known, would have affected the measurement of the amounts initially recorded. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments in the update eliminate the requirement to retrospectively account for those adjustments. This ASU is effective for public entities for fiscal years beginning after December 15, 2015, including interim periods within those years. Disclosure of the nature and reason for the change should be made in the first period, including interim periods, there is a measurement period adjustment.

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

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842), Conforming Amendments Related to Leases*. This ASU amends the codification regarding leases in order to increase transparency and comparability. The ASU requires companies to recognize lease assets and liabilities on the statement of condition and disclose key information about leasing arrangements. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the leased asset for the lease term. The ASU is effective for annual and interim periods beginning after December 15, 2018. The adoption of this ASU is not expected to have a material effect on the Company's consolidated financial statements.

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

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments.* The amendments introduce an impairment model that is based on expected credit losses ("ECL"), rather than incurred losses, to estimate credit losses on certain types of financial instruments (ex. loans and held to maturity securities), including certain off-balance sheet financial instruments (ex. commitments to extend credit and standby letters of credit that are not unconditionally cancellable). The ECL should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments, over the contractual term. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. Financial instruments with similar risk characteristics may be grouped together when estimating the ECL. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination that are measured at amortized cost basis is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial estimate of expected credit loss would be recognized through an allowance for credit losses with an offset (i.e. increase) to the purchase price at acquisition. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for these assets. The ASU also amends the current available for sale security impairment model for debt securities whereby credit losses relating to available for sale debt securities should be recorded through an allowance for credit losses. This ASU is effective for fiscal years beginning after December 31, 2019. The amendments will be applied through a modified retrospective approach, resulting in a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently planning for the implementation of this accounting standard. It is too early to assess the impact this guidance will have on the Company's consolidated financial statements.

Note 2 – Reclassifications –

Certain reclassifications may have been made to the prior years' financial statements in order to conform to the classifications adopted for reporting in 2016. These reclassifications have no effect on previously reported net income.

Note 3 – Mergers and Acquisitions –

After the close of business on March 31, 2015, the Company merged with American Gateway Financial Corporation (AGFC), parent bank holding company for American Gateway Bank, into which the operations of AGFC merged with the Company. Prior to the merger, AGFC was a full service bank with 10 branches located in the Baton Rouge metro region. As part of the merger, the Company issued common stock, as well as cash, for the outstanding shares of AGFC. The Company believes with this merger, it will not only increase its presence in the Baton Rouge region, but also in Louisiana statewide, by being able to offer more services to its customers. The Company also believes that the merger with AGFC will increase the Company's core deposits and allow the opportunity to further increase the loan portfolio. Results of operations include the revenues and expenses of the acquired operations from the acquisition date forward.

The following table provides the purchase price calculation as of the merger date and the identifiable assets purchased and the liabilities assumed at their estimated fair values. The fair value measurements were subject to refinement for up to one year after the merger date based on additional information that was obtained by us that existed as of the merger date.

Cost and Allocation of Purchase Price for American Gateway Financial Corporation (AGFC):
(Dollars in thousands, except per share data)

Purchase Price:			
AGFC Shares Outstanding at March 31, 2015	217,944		
Gross Business First Shares Issued for AGFC Shares	2,589,174		
Exchange Ratio	11.88		
Less: Shares Cashed Out Under Terms of Merger	698,186		
Net Business First Shares to be Issued for AGFC Shares			1,890,988
Market Value per Share of Business First Stock			17.66
Aggregate Value of Business First Stock Issued in Merger		$	33,395
Aggregate Cash Consideration Paid in Merger			1,595
Cash Paid to Shareholders Exercising Appraisal Rights			12,867
Total Purchase Price		$	47,857
Net Assets Acquired:			
Cash and Cash Equivalents		$	98,489
Securities Available for Sale			108,358
Loans and Leases Receivable			143,223
Premises and Equipment, Net			7,395
Cash Value of Life Insurance			4,326
Other Real Estate Owned			593
Core Deposit Intangible			2,762
Other Assets			6,375
Total Assets			371,521
Noninterest Bearing Deposits			80,865
Interest Bearing Deposits			202,442
Total Deposits			283,307
Borrowings			45,509
Other Liabilities			1,672
Total Liablilites			330,488
Net Assets Acquired			41,033
Goodwill Resulting from Merger		$	6,824

Note 4 – Earnings per Common Share –

Basic earnings per share (EPS) represents income available to common stockholders divided by the weighted average number of common shares outstanding; no dilution for any potentially convertible shares is included in the calculation. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The potential common shares that may be issued by the Company relate to outstanding stock warrants and stock options.

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in thousands, except per share data)		
Numerator:			
Net Income Available to Common Shares	$ 5,111	$ 4,096	$ 4,033
Denominator:			
Weighted Average Common Shares Outstanding	7,033,476	6,694,075	5,314,925
Dilutive Effect of Stock Options and Warrants	281,607	288,981	293,600
Weighted Average Dilutive Common Shares	7,315,083	6,983,056	5,608,525
Basic Earnings Per Common Share From Net Income Available to Common Shares	$ 0.73	$ 0.61	$ 0.76
Diluted Earnings Per Common Share From Net Income Available to Common Shares	$ 0.70	$ 0.59	$ 0.72

Note 5 – Cash and Due From Bank –

The Bank is required to maintain funds in cash or on deposit with the Federal Reserve Bank. There were no required reserves at December 31, 2016 and 2015.

Note 6 – Securities –

The amortized cost and fair values of securities available for sale as of December 31, 2016 and 2015 are summarized as follows:

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

	December 31, 2015 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$ 13,656	$ 43	$ 32	$ 13,667
Corporate Securities	11,177	-	105	11,072
Mortgage-Backed Securities	120,599	39	1,568	119,070
Municipal Securities	65,679	874	112	66,441
Other Securities	942	-	335	607
Total Securities Available for Sale	$ 212,053	$ 956	$ 2,152	$ 210,857

The following table is a summary of securities with gross unrealized losses and fair values at December 31, 2016 and 2015, aggregated by investment category and length of time in a continued unrealized loss position. Due to the nature of these investments and current prevailing market prices, these unrealized losses are considered a temporary impairment of the securities.

	December 31, 2016					
	Less Than 12 Months		12 Months or Greater		Total	
	(Dollars in thousands)					
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government Agencies	$ 4,535	$ 50	$ -	$ -	$ 4,535	$ 50
Corporate Securities	2,010	31	4,515	21	6,525	52
Mortgage-Backed Securities	86,091	1,974	9,885	440	95,976	2,414
Municipal Securities	54,533	1,128	207	5	54,740	1,133
Other Securities	-	-	641	179	641	179
Total Securities Available for Sale	$ 147,169	$ 3,183	$ 15,248	$ 645	$ 162,417	$ 3,828

	December 31, 2015					
	Less Than 12 Months		12 Months or Greater		Total	
	(Dollars in thousands)					
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government Agencies	$ 8,840	$ 32	$ -	$ -	$ 8,840	$ 32
Corporate Securities	11,072	105	-	-	11,072	105
Mortgage-Backed Securities	91,384	1,029	23,386	539	114,770	1,568
Municipal Securities	13,983	43	2,498	69	16,481	112
Other Securities	-	-	607	335	607	335
Total Securities Available for Sale	$ 125,279	$ 1,209	$ 26,491	$ 943	$ 151,770	$ 2,152

Management evaluates securities for other than temporary impairment when economic and market conditions warrant such evaluations. Consideration is given to the extent and length of time the fair value has been below cost, the reasons for the decline in value, and the Company's intent to sell a security or whether it is more likely than not that the Company will be required to sell the security before the recovery of its amortized cost. The Company developed a process to identify securities that could potentially have a credit impairment that is other than temporary. This process involves evaluating each security for impairment by monitoring credit performance, collateral type, collateral geography, loan-to-value ratios, credit scores, loss severity levels, pricing levels, downgrades by rating agencies, cash flow projections and other factors as indicators of potential credit issues. When the Company determines that a security is deemed to be other than temporarily impaired, an impairment loss is recognized.

The amortized cost and fair values of securities available for sale as of December 31, 2016 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	$ 7,346	$ 7,349
One to Five Years	48,592	48,334
Over Five to Ten Years	61,477	60,499
Over Ten Years	84,458	82,160
Total Securities Available for Sale	$ 201,873	$ 198,342

Securities available for sale with a fair value of $86.0 million and $107.9 million, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law as of December 31, 2016 and 2015.

There were $260,000, $3,000 and $530,000 realized gross gains from sales or redemptions of securities for the years ended December 31, 2016, 2015 and 2014, respectively. There were $28,000, $18,000 and $517,000 realized gross losses from sales or redemptions of securities for the years ended December 31, 2016, 2015 and 2014, respectively.

The Bank has invested in the Federal Home Loan Bank of Dallas which is included in other equity securities and reflected at cost in these financial statements. The cost of these securities was $3.6 million and $3.5 million, respectively, at December 31, 2016 and 2015. The Federal Home Loan Bank stock is pledged to secure advances from the Federal Home Loan Bank of Dallas at both December 31, 2016 and 2015. The Bank also has investments of $100,000 and $100,000 in The Independent Banker's Bank, $1.6 million and $1.3 million in McLarty Capital Partners SBIC, L.P., $348,000 and $254,000 in Bluehenge Capital Secured Debt SBIC, L.P., and $234,000 and $243,000 in Bankers Insurance, LLC (which was acquired in the AGFC merger), at December 31, 2016 and 2015, respectively. At December 31, 2016, the Bank also had a $252,000 investment in First National Bankers Bank. These investments are carried at cost due to the lack of a quoted market price and a ready market for these types of investments.

Note 7 – Loans and the Allowance for Loan Losses –

Loans receivable at December 31, 2016 and 2015 are summarized as follows:

	December 31,	
	2016	2015
	(Dollars in thousands)	
Real estate loans:		
Construction and land	$ 94,426	$ 97,872
Farmland	9,217	8,897
1-4 family residential	129,052	112,954
Multi-family residential	22,737	26,058
Nonfarm nonresidential	298,057	312,207
Commercial	213,120	185,276
Consumer	44,342	29,128
Total loans held for investment	810,951	772,392
Less:		
Allowance for loan losses	(8,162)	(7,244)
Net loans	$ 802,789	$ 765,148

The performing one-to-four family residential, multi-family residential, commercial real estate, and commercial loans are pledged, under a blanket lien, as collateral securing advances from the FHLB at December 31, 2016 and 2015.

Net deferred loan origination fees were $761,000 and $740,000 at December 31, 2016 and 2015, 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 December 31, 2016 and 2015, overdrafts of $232,000 and $150,000, respectively, have been reclassified to loans.

The Bank is the lead lender on participations sold, without recourse, to other financial institutions which amounts are not included in the balance sheet. The unpaid principal balances of mortgages and other loans serviced for others were approximately $55.5 million and $44.7 million at December 31, 2016 and 2015, respectively.

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

Loans acquired in business combinations are initially recorded at fair value, which includes an estimate of credit losses expected to be realized over the remaining lives of the loans, and therefore no corresponding allowance for loan losses is recorded for these loans at acquisition. Methods utilized to estimate any subsequently required allowance for loan losses for acquired loans not deemed credit-impaired at acquisition are similar to originated loans; however, the estimate of loss is based on the unpaid principal balance and then compared to any remaining unaccreted purchase discount. To the extent the calculated loss is greater than the remaining unaccreted discount, an allowance is recorded for such difference.

The following table sets forth, as of December 31, 2016 and 2015, the balance of the allowance for loan losses by portfolio segment, disaggregated by impairment methodology, which is then further segregated by amounts evaluated for impairment collectively and individually. The allowance for loan losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments.

Allowance for Credit Losses and Recorded Investment in Loans Receivable

	December 31, 2016 (Dollars in thousands)							
	Real Estate: Construction and Land	Real Estate: Farmland	Real Estate: 1-4 Family Residential	Real Estate: Multi-family Residential	Real Estate: Nonfarm Nonresidential	Commercial	Consumer	Total
Allowance for credit losses:								
Beginning Balance	$ 600	$ 30	$ 1,021	$ 101	$ 1,416	$ 3,618	$ 458	$ 7,244
Charge-offs	(484)	-	(162)	-	(473)	(667)	(3)	(1,789)
Recoveries	10	-	140	-	1,258	33	46	1,487
Provision	807	45	229	71	113	55	(100)	1,220
Ending Balance	$ 933	$ 75	$ 1,228	$ 172	$ 2,314	$ 3,039	$ 401	$ 8,162
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ 252	$ -	$ 98	$ 501	$ 36	$ 887
Collectively evaluated for impairment	$ 933	$ 75	$ 943	$ 172	$ 2,216	$ 2,538	$ 365	$ 7,242
Purchased Credit Impaired (1)	$ -	$ -	$ 33	$ -	$ -	$ -	$ -	$ 33
Loans receivable:								
Ending Balance	$ 94,426	$ 9,217	$ 129,052	$ 22,737	$ 298,057	$ 213,120	$ 44,342	$ 810,951
Ending Balance:								
Individually evaluated for impairment	$ 143	$ -	$ 3,263	$ -	$ 1,073	$ 7,332	$ 198	$ 12,009
Collectively evaluated for impairment	$ 94,117	$ 9,217	$ 125,573	$ 22,737	$ 295,590	$ 205,788	$ 44,144	$ 797,166
Purchased Credit Impaired (1)	$ 166	$ -	$ 216	$ -	$ 1,394	$ -	$ -	$ 1,776

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

	December 31, 2015 (Dollars in thousands)							
	Real Estate: Construction and Land	Real Estate: Farmland	Real Estate: 1-4 Family Residential	Real Estate: Multi-family Residential	Real Estate: Nonfarm Nonresidential	Commercial	Consumer	Total
Allowance for credit losses:								
Beginning balance	$ 525	$ 19	$ 775	$ 35	$ 1,140	$ 3,813	$ 325	$ 6,632
Charge-offs	(102)	-	(144)	-	(44)	(695)	-	(985)
Recoveries	34	-	94	-	13	164	92	397
Provision	143	11	296	66	307	336	41	1,200
Ending Balance	$ 600	$ 30	$ 1,021	$ 101	$ 1,416	$ 3,618	$ 458	$ 7,244
Ending Balance:								
Individually evaluated for impairment	$ 504	$ -	$ 129	$ -	$ -	$ 475	$ -	$ 1,108
Collectively evaluated for impairment	$ 96	$ 30	$ 838	$ 57	$ 1,416	$ 3,143	$ 458	$ 6,038
Purchased Credit Impaired (1)	$ -	$ -	$ 54	$ 44	$ -	$ -	$ -	$ 98
Loans receivable:								
Ending Balance	$ 97,872	$ 8,897	$ 112,954	$ 26,058	$ 312,207	$ 185,276	$ 29,128	$ 772,392
Ending Balance:								
Individually evaluated for impairment	$ 1,732	$ -	$ 3,666	$ -	$ 4,172	$ 2,226	$ -	$ 11,796
Collectively evaluated for impairment	$ 96,046	$ 8,897	$ 108,778	$ 25,829	$ 305,234	$ 183,050	$ 29,128	$ 756,962
Purchased Credit Impaired (1)	$ 94	$ -	$ 510	$ 229	$ 2,801	$ -	$ -	$ 3,634

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

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

As of December 31, 2016 and 2015, the credit quality indicators, disaggregated by class of loan, are as follows:

Credit Quality Indicators

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

	December 31, 2015				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real Estate Loans:					
Construction and land	$ 93,740	$ 1,300	$ 1,094	$ 1,738	$ 97,872
Farmland	8,897	-	-	-	8,897
1-4 family residential	104,720	1,824	3,205	3,205	112,954
Multi-family residential	24,884	945	-	229	26,058
Nonfarm nonresidential	281,503	12,727	16,171	1,806	312,207
Commercial	157,734	22,222	4,341	979	185,276
Consumer	28,702	396	30	-	29,128
Total	$ 700,180	$ 39,414	$ 24,841	$ 7,957	$ 772,392

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 December 31, 2016 and 2015, loan balances outstanding more than 90 days past due and still accruing interest amounted to $168,000 and $0, respectively. As of December 31, 2016 and 2015, loan balances outstanding on non-accrual status amounted to $7.1 million and $8.0 million, respectively. The Bank considers all loans more than 90 days past due as nonperforming loans.

The following table reflects certain information with respect to the loan portfolio delinquencies by loan class and amount as of December 31, 2016 and 2015. All loans greater than 90 days past due are generally placed on non-accrual status.

Aged Analysis of Past Due Loans Receivable

	December 31, 2016 (Dollars in thousands)						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment Over 90 Days Past Due and Still Accruing
Real Estate Loans:							
Construction and land	$ 465	$ -	$ 106	$ 571	$ 93,855	$ 94,426	$ -
Farmland	-	-	-	-	9,217	9,217	-
1-4 family residential	989	579	963	2,531	126,521	129,052	117
Multi-family residential	-	-	-	-	22,737	22,737	-
Nonfarm nonresidential	1,370	173	532	2,075	295,982	298,057	-
Commercial	45	372	262	679	212,441	213,120	51
Consumer	66	-	149	215	44,127	44,342	-
Total	$ 2,935	$ 1,124	$ 2,012	$ 6,071	$ 804,880	$ 810,951	$ 168

	December 31, 2015 (Dollars in thousands)						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment Over 90 Days Past Due and Still Accruing
Real Estate Loans:							
Construction and land	$ -	$ 10	$ 384	$ 394	$ 97,478	$ 97,872	$ -
Farmland	-	-	-	-	8,897	8,897	-
1-4 family residential	289	132	1,086	1,507	111,447	112,954	-
Multi-family residential	-	-	-	-	26,058	26,058	-
Nonfarm nonresidential	1,185	178	309	1,672	310,535	312,207	-
Commercial	78	13	-	91	185,185	185,276	-
Consumer	-	-	-	-	29,128	29,128	-
Total	$ 1,552	$ 333	$ 1,779	$ 3,664	$ 768,728	$ 772,392	$ -

Loan Receivables on Nonaccrual Status

	December 31,	
	2016	2015
	(Dollars in thousands)	
Real Estate Loans:		
Construction and land	$ 243	$ 1,738
Farmland	-	-
1-4 family residential	2,721	3,205
Multi-family residential	-	229
Nonfarm nonresidential	1,201	1,806
Commercial	2,763	979
Consumer	198	-
Total	$ 7,126	$ 7,957

The following is a summary of information pertaining to impaired loans as of December 31, 2016 and 2015. Acquired non-impaired loans are placed on nonaccrual status and reported as impaired using the same criteria applied to the originated portfolio. Purchased impaired credits are excluded from this table. The interest income recognized for impaired loans was $464,000 and $386,000 for the years ended December 31, 2016 and 2015, respectively.

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

	December 31, 2015			
	(Dollars in thousands)			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Real Estate Loans:				
Construction and land	$ 1,336	$ 1,514	$ 504	$ 1,392
Farmland	-	-	-	-
1-4 family residential	305	313	129	78
Multi-family residential	-	-	-	-
Nonfarm nonresidential	-	-	-	-
Other Loans:				
Commercial	975	1,653	475	908
Consumer	-	-	-	-
Total	$ 2,616	$ 3,480	$ 1,108	$ 2,378
With no allowance recorded:				
Real Estate Loans:				
Construction and land	$ 396	$ 401	$ -	$ 1,530
Farmland	-	-	-	-
1-4 family residential	3,361	3,898	-	1,933
Multi-family residential	-	-	-	-
Nonfarm nonresidential	4,172	5,588	-	4,062
Other Loans:				
Commercial	1,251	1,255	-	3,368
Consumer	-	-	-	14
Total	$ 9,180	$ 11,142	$ -	$ 10,907
Total Impaired Loans:				
Real Estate Loans:				
Construction and land	$ 1,732	$ 1,915	$ 504	$ 2,922
Farmland	-	-	-	-
1-4 family residential	3,666	4,211	129	2,011
Multi-family residential	-	-	-	-
Nonfarm nonresidential	4,172	5,588	-	4,062
Other Loans:				
Commercial	2,226	2,908	475	4,276
Consumer	-	-	-	14
Total	$ 11,796	$ 14,622	$ 1,108	$ 13,285

The Company elected to account for certain loans acquired in the AGFC merger as acquired impaired loans under FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30")*, due to evidence of credit deterioration at acquisition and the probability that the Company will be unable to collect all contractually required payments.

The following table presents the fair value of loans acquired with deteriorated credit quality as of the date of the AGFC merger. The expected cash flows approximated fair value as of the date of merger and, as a result, no accretable yield was recognized at acquisition.

	April 1, 2015
	(Dollars in thousands)
Purchased Impaired Credits:	
Contractually required principal and interest	$ 11,294
Nonaccretable difference	6,375
Cash flows expected to be collected	4,919
Accretable yield	-
Fair value of purchased impaired credits at acquisition	$ 4,919

The following table presents the changes in the carrying amount of the purchased impaired credits from the April 1, 2015 merger date to December 31, 2016.

	Purchased Impaired Credits
	(Dollars in thousands)
Carrying amount - April 1, 2015 (acquisition)	$ 4,919
Payments received, net of discounts realized	(469)
Charge-offs	(204)
Transfer to other real estate	(612)
Carrying amount - December 31, 2015	3,634
Payments received, net of discounts realized	(1,181)
Charge-offs	(352)
Transfer to other real estate	(325)
Carrying amount - December 31, 2016	$ 1,776

Total loans acquired in the AGFC merger included $142.8 million of performing loans not accounted for under ASC 310-30 which had an estimated fair value of $138.1 million as of the date of acquisition. As of December 31, 2016 and 2015, the AGFC performing loans totaled $65.9 million and $93.1 million, respectively, with a related purchase discount of $2.4 million and $3.2 million, respectively.

The Bank seeks to assist customers that are experiencing financial difficulty by renegotiating loans within lending regulations and guidelines. The Bank makes loan modifications, primarily utilizing internal renegotiation programs via direct customer contact, that manage customers' debt exposures held only by the Bank. Additionally, the Bank makes loan modifications with customers who have elected to work with external renegotiation agencies and these modifications provide solutions to customers' entire unsecured debt structures. During the periods ended December 31, 2016 and 2015, the concessions granted to certain borrowers included extending the payment due dates, lowering the contractual interest rate, reducing accrued interest, and reducing the debt's face or maturity amount.

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

The following tables present informative data regarding troubled debt restructurings as of December 31, 2016 and 2015.

Modifications as of December 31, 2016:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in thousands)	
Troubled Debt Restructing			
Real Estate Loans:			
1-4 family residential	3	$ 870	$ 608
Other Loans:			
Commercial	6	6,880	5,323
Total	9	$ 7,750	$ 5,931

Modifications as of December 31, 2015:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in thousands)	
Troubled Debt Restructing			
Real Estate Loans:			
1-4 family residential	5	$ 1,568	$ 1,008
Nonfarm nonresidential	3	5,143	3,623
Other Loans:			
Commercial	3	1,736	1,234
Total	11	$ 8,447	$ 5,865

The Bank had $54,000 in troubled debt restructurings that subsequently defaulted during the year ended December 31, 2015 and none that subsequently defaulted during the year ended December 31, 2016.

Note 8 – Premises and Equipment –

Bank premises and equipment at December 31, 2016 and 2015 consist of the following:

	2016	2015
	(Dollars in thousands)	
Land	$ 2,098	$ 2,126
Buildings and Leasehold Improvements	6,875	6,446
Furniture and Equipment	6,007	5,128
Total Bank Premises and Equipment	14,980	13,700
Less: Accumulated Depreciation	(5,699)	(4,466)
Total Bank Premises and Equipment, net	$ 9,281	$ 9,234

The provision for depreciation and amortization charged to operating expenses was $1.3 million, $1.2 million and $810,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

Note 9 - Goodwill and Other Intangible Assets –

Goodwill was acquired during the year ended December 31, 2015 as a result of the AGFC merger effective after the close of business March 31, 2015. The carrying amount of goodwill as of December 31, 2016 and 2015 was $6.8 million and $3.4 million, respectively. As of December 31, 2015, there were 53,094 unsettled appraisal rights shares and the final cash consideration to shareholders was not finalized. Consequently, as of December 31, 2015, goodwill was subject to refinement for up to one year after the merger date based upon additional information that was obtained by us that existed as of the merger date. There were no unsettled appraisal rights shares as of December 31, 2016.

Core deposit intangibles were acquired in conjunction with the AGFC merger. A summary of the core deposit intangible asset as of December 31, 2016 and 2015 is as follows:

	2016	2015
	(Dollars in thousands)	(Dollars in thousands)
Gross Carrying Amount	2,762	2,762
Less: Accumulated Amortization	(483)	(207)
Net Carrying Amount	$ 2,279	$ 2,555

Amortization expense on the core deposit intangible asset recorded in other expenses totaled approximately $276,000 and $207,000 during the years ended December 31, 2016 and 2015, respectively. The following table presents the estimated aggregate amortization expense for the periods indicated:

December 31,	(Dollars in thousands)
2017	$ 276
2018	276
2019	276
2020	276
2021	276
Thereafter	899
Total Core Deposit Intangible	$ 2,279

Note 10 – Deposits –

Deposit accounts at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
	(Dollars in thousands)	
Noninterest Bearing - DDA	$ 16,950	$ 44,024
Noninterest Bearing - Money Market Account	206,755	178,464
Noninterest Bearing Deposits	223,705	222,488
Interest Bearing - DDA	31,457	26,928
NOW and Super NOW Accounts	17,051	15,405
Money Market Accounts	287,189	329,955
Savings Accounts	35,181	36,137
Certificates of Deposit Over $250,000	73,346	52,418
Other Certificates of Deposit	264,866	220,905
Interest Bearing Deposits	709,090	681,748
Total Deposits	$ 932,795	$ 904,236

Approximately 70.7% of certificates of deposit as of December 31, 2016 have stated maturity dates during 2017 and the remaining 29.3% have stated maturity dates during 2018 and beyond.

At December 31, 2016 and 2015, total deposits for the top three customer relationships was approximately $114.2 million and $126.3 million, respectively, which represented 12.3% and 14.0% of total deposits, respectively. Brokered deposits were approximately $102.8 million and $74.6 million at December 31, 2016 and 2015, respectively. Included in these brokered deposits are public fund deposits of approximately $27.2 million and $20.8 million at December 31, 2016 and 2015, respectively. Other public fund deposits were approximately $113.5 million and $146.4 million at December 31, 2016 and 2015, respectively.

Note 11 – Borrowings –

The Bank had outstanding advances from the Federal Home Loan Bank (FHLB) of $46.4 million and $47.7 million at December 31, 2016 and 2015, respectively, consisting of:

Three fixed rate loans totaling $30.0 million, at December 31, 2016 and 2015, with interest rates ranging from 2.92% to 3.07% paid monthly. Principal is due at maturity in November 2017 with quarterly call options beginning in 2008.

One fixed rate loan of $1.4 million and $2.7 million, at December 31, 2016 and 2015, respectively, with interest at 3.18% paid monthly. Principal is paid monthly and matures in December 2017.

One fixed rate loan of $15.0 million, at December 31, 2016 and 2015, with interest at 1.90% paid monthly. Principal is due at maturity in December 2018 with quarterly call options beginning in 2013.

These advances are collateralized by the Bank's investment in Federal Home Loan Bank stock and a blanket lien on qualifying loans in the Bank's loan portfolio consisting of performing 1-4 family mortgages and certain small business, small farm and small agriculture loans. The blanket lien totaled approximately $321.1 million at December 31, 2016 with unused availability for advances and letters of credit of approximately $193.7 million.

As a result of the merger with AGFC, the Bank assumed the outstanding FHLB advances of American Gateway Bank. These advances were recorded at fair value as of acquisition, which totaled $41.2 million, and resulted in a market value adjustment of $2.0 million which is being accreted over the life of the respective advances as a reduction of interest expense on borrowings. The unaccreted market value adjustment totaled $670,000 and $1.4 million at December 31, 2016 and 2015, respectively.

The Bank has outstanding lines of credit with several of its correspondent banks available to assist in the management of short-term liquidity. These agreements provide for interest based upon the federal funds rate on the outstanding balance. Total available lines of credit as of December 31, 2016 and 2015 were $109.5 million and $83.7 million, respectively. There was no balance on these lines at December 31, 2016 and 2015.

First Tennessee Bank National Association (FTN) allowed the Company to borrow on a revolving basis up to $3.0 million. This line of credit, established on September 3, 2015, was unsecured, but the Company agreed that it would not pledge any of the capital stock of its wholly-owned subsidiary, Business First Bank, to secure any other obligation. The line of credit was established for the purpose of repurchasing shares of the Company's common stock from certain of its shareholders and for general corporate purposes. This line of credit was paid off on September 12, 2016. At December 31, 2015 the line was fully funded with a balance of $3.0 million bearing interest at a variable rate of 3-month LIBOR plus 2.5%. The rate was 2.93% as December 31, 2015, and adjusted quarterly.

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

First National Bankers Bank (FNBB) also allows the Company to borrow on a revolving basis up to $5.0 million. This line of credit, established on September 12, 2016, is secured by a pledge of and security interest in the common stock of our wholly-owned subsidiary, Business First Bank. As of December 31, 2016, the balance outstanding was $862,000. The line of credit bears a variable interest rate equal to the Wall Street Journal Prime rate. The rate was 3.75% at December 31, 2016. The FNBB line matures in one year and was established for the purpose of repurchasing shares of our common stock from certain of our shareholders and for general corporate purposes.

Note 12 – Securities Sold Under Agreements to Repurchase –

At December 31, 2016 and 2015, the Bank had sold various investment securities with an agreement to repurchase these securities at various times within one year. These securities generally remain under the Bank's control and are included in securities available for sale. These securities have coupon rates ranging from 2.0% to 3.5% and maturity dates ranging from 2027 to 2036. The related liability to repurchase these securities was $2.7 million and $2.4 million at December 31, 2016 and 2015, respectively.

Note 13 – Income Taxes –

The consolidated provision (credit) for income taxes consists of the following at December 31, 2016, 2015 and 2014:

	2016	2015	2014
		(Dollars in thousands)	
Provision (Credit) for Current Taxes - Federal	$ 660	$ 1,599	$ 2,128
Provision (Credit) for Deferred Taxes	953	(74)	(764)
Total Provision for Income Taxes	$ 1,613	$ 1,525	$ 1,364

The provision (credit) for federal income taxes differs from the amount computed by applying federal statutory rates to income from operations as indicated in the following analysis at December 31, 2016, 2015 and 2014:

	2016	2015	2014
		(Dollars in thousands)	
Federal Statutory Income Tax at 34%	$ 2,286	$ 1,911	$ 1,835
Tax Exempt Income	(708)	(559)	(707)
Other - Net	35	173	236
Total Provision for Income Taxes	$ 1,613	$ 1,525	$ 1,364

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The net deferred tax asset at December 31, 2016 and 2015 is included in other assets. The components of the deferred tax assets (liabilities) are as follows:

	2016	2015
	(Dollars in thousands)	
Allowance for Loan Losses	$ 2,775	$ 2,463
Acquried Loans Fair Market Value Adjustment	2,168	2,631
Acquired Securities Difference in Basis	(744)	(826)
Amortization of Start-Up Costs	55	69
Stock Warrants and Options	1,217	1,063
Depreciation	(799)	(804)
Interest on Acquired Nonaccrual Loans	42	47
Unrealized (Gain) Loss on Securities	1,201	406
Other Real Estate	110	147
Core Deposit Intangible	(775)	(869)
Acquired FHLB Debt Fair Market Value Adjustment	228	476
Deferred Compensation	723	907
Alternative Minimum Tax Credit	345	984
Net Operating Loss Carryforward	78	88
Net Deferred Tax Asset	$ 6,624	$ 6,782

The Company acquired certain deferred tax attributes and liabilities as a result of its merger with AGFC, including a net operating loss ("NOL") carryforward of $287,000 and alternative minimum tax ("AMT") credit carryforwards of $984,000. The Company is limited in the amount it may deduct against current taxable income each year. As of December 31, 2016 the NOL carryforward was $230,000 and expires in 2033. The AMT credit carryforward was $345,000 as of December 31, 2016 and can be carried forward indefinitely as a credit against the Company's regular tax liability.

Note 14 – Accumulated Other Comprehensive Income (Loss) –

The following is a summary of the changes in the balances of each component of accumulated other comprehensive income (loss) for the years ended December 31, 2016 and 2015:

	2016	2015
	(Dollars in thousands)	
Unrealized Gains (Losses) on Securities Available for Sale:		
Balance at Beginning of Year	$ (789)	$ (643)
Other Comprehensive Income (Loss)		
Before Reclassifications - Net of Tax	(1,694)	(136)
Reclassification Adjustment for Gains (Losses)		
Realized - Net of Tax	153	(10)
Other Comprehensive Income (Loss)	(1,541)	(146)
Balance at End of Year	$ (2,330)	$ (789)

Note 15 – Stockholders' Equity and Regulatory Matters –

Stockholders' Equity of the Company includes the undistributed earnings of the Bank. The Company pays dividends from its assets, which are provided primarily by dividends from the Bank. Certain restrictions exist regarding the ability of the Bank to pay cash distributions. Louisiana statutes require approval to pay distributions in excess of a bank's earnings in the current year plus retained net profits for the preceding year. The Company paid common stock dividends of $0.05 per share in the second, third, and fourth quarters of 2016 based upon the financial performance of the first, second, and third quarters of 2016, respectively. There were no dividends declared or paid by the Company for the year ended December 31, 2015.

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

Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines involving quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios. As detailed below, as of December 31, 2016 and 2015, the Bank met all of the capital adequacy requirements to which it is subject.

As of December 31, 2016 and 2015, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To maintain categorized as well capitalized, the Bank will have to maintain minimum total capital, Tier I capital, risk-based common equity Tier I, and Tier I leverage ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the prompt corrective action category.

The following is a summary of the Bank's actual capital amounts and ratios at December 31, 2016 and 2015 which approximate the amounts and ratios for the Company (consolidated) at December 31, 2016 and 2015:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2016:						
Total Capital (to Risk-Weighted Assets)	$ 117,909	11.89%	$ 79,324	8.00%	$ 99,155	10.00%
Tier I Capital (to Risk-Weighted Assets)	$ 109,747	11.07%	$ 59,493	6.00%	$ 79,324	8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$ 109,747	11.07%	$ 44,620	4.50%	$ 64,451	6.50%
Tier I Leveraged Capital (to Average Assets)	$ 109,747	9.91%	$ 44,311	4.00%	$ 55,389	5.00%
December 31, 2015:						
Total Capital (to Risk-Weighted Assets)	$ 115,828	12.17%	$ 76,159	8.00%	$ 95,199	10.00%
Tier I Capital (to Risk-Weighted Assets)	$ 108,584	11.41%	$ 57,120	6.00%	$ 76,159	8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$ 108,584	11.41%	$ 42,840	4.50%	$ 61,879	6.50%
Tier I Leveraged Capital (to Average Assets)	$ 108,584	10.17%	$ 42,703	4.00%	$ 53,379	5.00%

Note 16 – Stock Based Compensation –

Stock Warrants

In connection with the organization of the Company and the Bank, stock warrants were issued to organizers. The warrants may be exercised by the holders for the purchase of 101,000 shares of common stock of the Company at the exercise price of $10 per share (warrant). The warrants were fully vested on February 1, 2011 and were to expire in 2016. The warrant agreements were subsequently amended effective February 1, 2016 to extend the expiration time to February 2, 2019, with $48,000 of compensation cost recognized on the effective date.

At December 31, 2016 and 2015, warrants for 87,625 shares and 89,125 shares at a weighted average exercise price of $10.00 were outstanding. At December 31, 2016, all of the 87,625 outstanding warrants were vested and there was no unrecognized compensation. However, the amendment effective February 1, 2016 extended the exercise period and retained the $10 per share exercise price. As a result, in compliance with Section 409A of the Internal Revenue Code of 1986, as amended, the "optionality" of the warrants was eliminated thereby restricting the situations in which the warrants can be exercised to occur upon the earlier of (i) immediately prior to the February 2, 2019 expiration date, (ii) a change in control of the Company or the Bank, (iii) the warrant holder's death, (iv) the warrant holder becoming disabled, and (v) the warrant holder incurring a separation from the Company or the Bank (if the warrant holder is an employee of the Company or the Bank).

Using the Black-Scholes pricing model for the 87,625 shares (warrants) outstanding, the calculated value of $2.50 per share (warrant) was estimated on the date of grant using the following assumptions: expected dividends of 1%, expected life or term of 6.5 years, risk-free interest rate of 5.04%, and expected volatility of 13.19%. The expected volatility was estimated considering the historical volatility of an appropriate industry sector.

Stock Options

In 2006, the Company established a stock option plan with 1,500,000 shares available to be granted as options under the plan. Under the provisions of the plan, the option price cannot be less than the fair value of the underlying common stock as of option grant date, and the maximum option term cannot exceed ten years. The 2006 Stock Option Plan expired on December 22, 2016 and the Company is no longer permitted to issue additional stock options under this plan.

During the years ended December 31, 2016 and 2015, total options of 50,000 and 42,800 were granted, respectively, to officers and other key employees. The stock options granted were issued at an exercise price of $17.65 per share and $17.11 per share for the years ended December 31, 2016 and 2015, respectively, with a vesting period of three years. Compensation expense recognized as a result of vesting was approximately $240,000 and $198,000 in 2016 and 2015, respectively.

The Company uses the Black-Scholes option pricing model to estimate the calculated value of the various share-based awards with the following assumptions for the years ended December 31, 2016 and 2015, respectively.

	2016	2015
Risk-Free Interest Rate	1.36%	1.44%
Expected Dividend Yield	1.18%	0.00%
Expected Volatility	31.68%	29.39%
Expected Life in Years	5	5
Weighted Average Calculated Value of Options Granted	$ 4.27	$ 4.87

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

	Number of Options	Weighted Average Exercise Price
Outstanding Options, December 31, 2015	953,280	$ 12.59
Granted	50,000	17.65
Exercised	-	
Forfeited or Expired	(4,800)	17.11
Outstanding Options, December 31, 2016	998,480	$ 12.82

At December 31, 2016, options for 562,548 shares at a weighted average exercise price of $13.79 were vested and exercisable, and there were 105,932 nonvested options and approximately $492,000 of unrecognized compensation costs related to these options which is expected to be recognized over a period of four years.

On December 20, 2016 the option agreements were amended for 330,000 options which were fully vested and set to expire December 22, 2016. Compensation cost of $168,000 was recognized on the effective date of the amendments. Since the amendments extended the exercise period and retained the $10 per share exercise price, the "optionality" was eliminated in compliance with Section 409A of the Internal Revenue Code of 1986, as amended, thereby restricting the situations in which the options can be exercised to occur upon the earlier of (i) immediately prior to the January 15, 2020 expiration date, (ii) a change in control of the Company or the Bank, (iii) the option holder's death, (iv) the option holder becoming disabled, and (v) the option holder incurring a separation from the Company or the Bank (if the option holder is an employee of the Company or the Bank).

Note 17 – Employee Benefit Plans –

Defined Contribution Plan

The Bank has a defined contribution plan qualified under Internal Revenue Code 401(K) for those employees who meet the eligibility requirements. Contributions may be made by eligible employees subject to Internal Revenue Service limits. The Bank contributes a matching contribution up to 4% of wages which totaled $467,000, $351,000 and $274,000 and is included in salaries and employee benefits for the years ended December 31, 2016, 2015 and 2014, respectively.

Deferred Compensation

The Company has established certain unfunded nonqualified deferred compensation agreements for the purpose of providing deferred compensation as retirement benefits for a select group of management. At December 31, 2016 and 2015, the Company had recorded accrued liabilities of $2.0 million and $2.4 million, respectively. For the year ended December 31, 2016, the Company recognized income of $339,000 related to the deferred compensation agreements, as a result of the termination of some members of the select group of management. The expense related to the deferred compensation agreements was $336,000 and $300,000 for the years ended December 31, 2015 and 2014, respectively.

Note 18 – Other Expenses –

An analysis of Other Expenses is as follows for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
		(Dollars in thousands)	
Business Development	$ 1,253	$ 805	$ 526
Communications	872	469	286
Ad Valorem Shares Tax	650	669	540
Data Processing Fees	1,528	1,141	699
Directors Fees	337	325	366
Insurance	301	284	168
Legal and Professional Fees	1,806	1,980	1,193
Office Supplies and Printing	455	437	147
Regulatory Assessments	847	880	425
Taxes and Licenses	24	10	21
Nonrecurring Merger and Conversion Costs	8	1,149	-
Other	2,943	2,274	1,119
Total Other Expenses	$ 11,024	$ 10,423	$ 5,490

Note 19 – Financial Instruments with Off-Balance-Sheet Risk –

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

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby and commercial letters of credit is represented by the contractual amount of those instruments. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. The Bank uses the same credit policies in making such commitments and conditional obligations as it does for instruments that are included in the balance sheet. In the normal course of business, the Bank has made commitments to extend credit of approximately $196.2 million and standby and commercial letters of credit of approximately $12.5 million at December 31, 2016.

Note 20 – Concentrations of Credit –

The majority of the Bank's business activities are with customers in the Bank's market area, which consists primarily of East and West Baton Rouge, Bossier, Caddo, St. Tammany, Lafayette, Calcasieu, Terrebonne, Jefferson and adjacent parishes. The majority of such customers are depositors of the Bank. The concentrations of credit by type of loan are shown in Note 7. The Bank, as a matter of policy, does not extend credit to any single borrower or group of related borrowers in excess of the Bank's legal lending limits. Most of the Bank's credits are to individuals and businesses secured by real estate. A substantial portion of their ability to pay on their debt is dependent on the local economy and industries in the areas.

Within the loan portfolio, the Bank has a concentration of credits secured by real estate. The Bank had extended credit secured by non-farm non-residential real estate totaling approximately $298.1 million and $312.2 million, which accounted for 36.8% and 40.4% of total loans held for investment at December 31, 2016 and 2015, respectively. Additionally, the Bank had extended credit secured by construction and land development totaling approximately $94.4 million and $97.9 million, respectively; these loans represented 11.6% and 12.7% of total loans held for investment at December 31, 2016 and 2015, respectively.

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

Note 21 – Commitments –

Leases

The Bank leases certain branch offices through non-cancelable operating leases with terms that range from four to ten years and contain various renewal options for certain of the leases. Rental expense under these agreements was $1.5 million, $1.4 million and $1.2 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Future minimum lease payments under these leases are as follows:

December 31,	(Dollars in thousands)
2017	$ 1,591
2018	1,459
2019	1,322
2020	961
2021 and Thereafter	5,969
Total Future Minimum Lease Payments	$ 11,302

SBIC Capital Commitment

The SBIC is a program initiated by the Small Business Administration (SBA) in 1958 to assist in the funding of small business loans. The program is a joint venture between investors with venture capital, the SBA, and small business borrowers. Investors are responsible for funding the first portion of the capital requirements, with the remaining requirement being funded by the SBA. The funds are then lent to small business borrowers.

The Bank has agreed to participate as an investor with McLarty Capital Partners SBIC, L.P. (McLarty) and Bluehenge Capital Secured Debt SBIC, L.P. (Bluehenge); details of these commitments at December 31, 2016 are below.

	McLarty	Bluehenge
	(Dollars in thousands)	
Total Capital Commitment	$ 2,000	$ 1,500
Capital Called	$ 1,670	$ 412
Remaining Unfunded Capital Commitment	$ 330	$ 1,088

Federal Home Loan Bank Letters of Credit

The Bank had outstanding letters of credit on behalf of others from the FHLB of $81.0 million and $76.0 million at December 31, 2016 and 2015, respectively. The outstanding letters of credit as of December 31, 2016 are as follows:

One letter of credit of $11.0 million expires in March 2017.

One letter of credit of $5.0 million expires in May 2017.

One letter of credit of $40.0 million expires in June 2017.

One letter of credit of $25.0 million expires in June 2017.

Note 22 – Related Party Transactions –

In the ordinary course of business, the Bank has granted loans to directors, officers and their affiliates. Such loans were made on substantially the same terms as those prevailing at the time for comparable transactions with other customers. Such loans amounted to $15.1 million and $22.0 million at December 31, 2016 and 2015, respectively.

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

	2016	2015
	(Dollars in thousands)	
Balance - Beginning of Year	$ 22,004	$ 28,664
New Loans	6,570	5,602
Repayments	(13,435)	(12,262)
Balance - End of Year	$ 15,139	$ 22,004

Related party deposits totaled $13.7 million and $10.0 million as of December 31, 2016 and 2015, respectively.

Note 23 – Fair Value of Financial Instruments –

Fair Value Disclosures

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

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

Recurring Basis

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

The following tables present the balance of assets and liabilities measured on a recurring basis as of December 31, 2016 and 2015. The Company did not record any liabilities at fair value for which measurement of the fair value was made on a recurring basis.

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
December 31, 2016				
Available for Sale:				
U.S. Government Agency Securities	$ 7,566	$ -	$ 7,566	$ -
Corporate Securities	11,127	-	11,127	-
Mortgage-Backed Securities	99,372	-	99,372	-
Municipal Securities	79,636	-	79,636	-
Other Securities	641	-	641	-
Total	$ 198,342	$ -	$ 198,342	$ -
December 31, 2015				
Available for Sale:				
U.S. Government Agency Securities	$ 13,667	$ -	$ 13,667	$ -
Corporate Securities	11,072	-	11,072	-
Mortgage-Backed Securities	119,070	-	119,070	-
Municipal Securities	66,441	-	66,441	-
Other Securities	607	-	607	-
Total	$ 210,857	$ -	$ 210,857	$ -

Nonrecurring Basis

The Company has segregated all financial assets and liabilities that are measured at fair value on a nonrecurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below. The Company did not record any liabilities at fair value for which measurement of the fair value was made on a nonrecurring basis.

The fair value of the impaired loans is measured at the fair value of the collateral for collateral-dependent loans. Impaired loans are Level 2 assets measured using appraisals from external parties of the collateral less any prior liens. Repossessed assets are initially recorded at fair value less estimated cost to sell. The fair value of repossessed assets is based on property appraisals and an analysis of similar properties available. As such, the Bank records repossessed assets as Level 2.

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
December 31, 2016				
Assets:				
Impaired Loans	$ 12,865	$ -	$ 12,865	$ -
Repossessed Assets	1,196	-	1,196	-
Total	$ 14,061	$ -	$ 14,061	$ -
December 31, 2015				
Assets:				
Impaired Loans	$ 14,224	$ -	$ 14,224	$ -
Repossessed Assets	2,033	-	2,033	-
Total	$ 16,257	$ -	$ 16,257	$ -

Fair Value Financial Instruments

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

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

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

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

Loans – The fair value for loans is estimated using discounted cash flow analyses, with interest rates currently being offered for similar loans to borrowers with similar credit rates. Loans with similar classifications are aggregated for purposes of the calculations. The allowance for loan losses, which was used to measure the credit risk, is subtracted from loans.

Cash Value of Bank-Owned Life Insurance (BOLI) – The carrying amount approximates its fair value.

Other Equity Securities – The carrying amount approximates its fair value.

Deposits – The fair value of demand deposits and certain money market deposits is the amount payable at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using discounted cash flow analyses, with interest rates currently offered for deposits of similar remaining maturities.

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

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

The estimated approximate fair values of the Bank's financial instruments as of December 31, 2016 and 2015 are as follows:

	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(Dollars in thousands)		
December 31, 2016					
Financial Assets:					
Cash and Short-Term Investments	$ 44,729	$ 44,729	$ 44,729	$ -	$ -
Securities	198,342	198,342	-	198,342	-
Mortgage Loans Held for Sale	180	180	-	180	-
Loans - Net	802,789	796,400	-	-	796,400
Cash Value of BOLI	22,567	22,567	-	22,567	-
Other Equity Securities	6,120	6,120	-	-	6,120
Total	$ 1,074,727	$ 1,068,338	$ 44,729	$ 221,089	$ 802,520
Financial Liabilities:					
Deposits	$ 932,795	$ 912,702	$ -	$ -	$ 912,702
Borrowings	53,646	53,706	-	53,706	-
Total	$ 986,441	$ 966,408	$ -	$ 53,706	$ 912,702
December 31, 2015					
Financial Assets:					
Cash and Short-Term Investments	$ 43,407	$ 43,407	$ 43,407	$ -	$ -
Securities	210,857	210,857	-	210,857	-
Loans - Net	765,148	761,241	-	-	761,241
Cash Value of BOLI	22,339	22,339	-	22,339	-
Other Equity Securities	5,350	5,350	-	-	5,350
Total	$ 1,047,101	$ 1,043,194	$ 43,407	$ 233,196	$ 766,591
Financial Liabilities:					
Deposits	$ 904,236	$ 897,771	$ -	$ -	$ 897,771
Borrowings	54,579	54,561	-	54,561	-
Total	$ 958,815	$ 952,332	$ -	$ 54,561	$ 897,771

Note 24 – Litigation and Contingencies –

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

Note 25 – Subsequent Events –

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the date which the financial statements were available to be issued. This evaluation did not result in any subsequent events that required disclosures and /or adjustments under general accounting standards.

Note 26 – Financial Statements – Parent Company Only –

The balance sheets and statements of income for Business First Bancshares, Inc. (Parent Company) are as follows:

BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015
(Dollars in thousands)

	2016	2015
Assets:		
Cash	$ 54	$ 359
Investment in Subsidiaries	116,031	113,265
Other Assets	2,354	1,906
Total Assets	$ 118,439	$ 115,530
Liabilities:		
Short Term Borrowings	$ 862	$ 3,000
Accrued Interest Payable	6	21
Long Term Borrowings	3,000	-
Other Liabilities	1,012	60
Total Liabilities	4,880	3,081
Stockholders' Equity:		
Common Stock	6,917	7,036
Additional Paid-in Capital	85,133	85,913
Retained Earnings	21,509	19,500
Total Stockholders' Equity	113,559	112,449
Total Liabilities and Stockholders' Equity	$ 118,439	$ 115,530

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Dollars in thousands)

	2016	2015	2014
Income:			
Interest	$ -	$ 1	$ 4
Expenses:			
Other Operating Expenses	1,464	1,437	1,095
Income (Loss) before Income Taxes and Equity in Undistributed Net Income of Subsidiaries	(1,464)	(1,436)	(1,091)
Income Tax Expense (Benefit)	(498)	(474)	(371)
Income (Loss) before Equity in Undistributed Net Income of Subsidiaries	(966)	(962)	(720)
Equity in Undistributed Net Income of Subsidiaries	6,077	5,058	4,753
Net Income	$ 5,111	$ 4,096	$ 4,033

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES.

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

Our management, including our principal executive officer and our principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2016. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2016.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed under the supervision of our principal executive officer and our principal financial officer to provide reasonable assurance regarding the reliability of the financial reporting and preparation of our financial statements for external purposes in accordance with the accounting principles generally accepted in the United States of America. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

Our internal control systems are designed to ensure that transactions are properly authorized and recorded in the financial records and to safeguard assets from material loss or misuse. Such assurance cannot be absolute because of inherent limitations in any internal control system.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016 based on the criteria for effective internal control established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on the assessment, management determined that we maintained effective internal control over financial reporting as of December 31, 2016. Our independent registered public accountants have issued an audit report on our internal control over financial reporting which appears elsewhere in this Report.

Changes in Internal Control over Financial Reporting

There were no significant changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the year ended December 31, 2016, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

General

Our board of directors and the board of directors of Business First Bank are each made up of the same 16 individuals. Our directors are elected by shareholders at our annual shareholders' meeting. The elected directors hold office until the next annual meeting, or until their successors are duly elected and qualified. Our executive officers are appointed by and serve at the discretion of our board of directors.

The directors of Business First Bank are elected by us, as the sole shareholder of Business First Bank, each year and they hold office for a term of one year or until their successors are chosen and qualified. The executive officers of Business First Bank are appointed by and serve at the discretion of its board of directors. The following table sets forth the current directors and executive officers of Business First and Business First Bank:

Name (Age)	Title/Position with Business First	Position Since	Title/Position with Business First Bank	Position Since
Lloyd Benny Alford (71)	Director	May 2012	Director	February 2006
John Graves (75)	Director	May 2012	Director	July 2006
Robert S. Greer Jr. (69)	Director, Chairman	May 2012	Director, Chairman	April 2010
David L. Laxton III (67)	Director	June 2015	Director	June 2015
Rolfe Hood McCollister Jr. (61)	Director	August 2005	Director	August 2005
Andrew D. McLindon (56)	Director	May 2012	Director	April 2006
David R. ("Jude") Melville III (42)	Director, President and Chief Executive Officer	March 2011(1)	Director, President and Chief Executive Officer	March 2011(1)
Patrick E. Mockler (48)	Director	May 2012	Director	March 2006
David A. Montgomery, Jr. (56)	Director	May 2012	Director	December 2007
Arthur Price (51)	Director	May 2012	Director	December 2008
Fayez K. Shamieh (71)	Director	May 2012	Director	January 2010
C. Stewart Slack (61)	Director	May 2012	Director	December 2007
Kenneth Smith (54)	Director	May 2012	Director	December 2011
Thomas Everett Stewart Jr. (62)	Director	August 2005	Director	August 2005
Steve White (57)	Director	May 2012	Director	April 2010
Robert Yarborough (63)	Director	May 2012	Director	August 2006
Donald A. Hingle, II (56)	None	N/A	Executive Vice President, Chief Credit Executive	January 2017(2)
Philip Jordan (44)	None	N/A	Executive Vice President, Chief Commercial Officer	January 2017(3)
Keith Mansfield (40)	None	N/A	Executive Vice President, Chief Operations Officer	January 2017(4)
Alicia Robertson (48)	None	N/A	Executive Vice President, Chief Retail Officer	January 2017(5)
Gregory Robertson (45)	Chief Financial Officer and Treasurer	January 2017(6)	Executive Vice President, Chief Financial Officer	January 2017(6)

(1) Mr. Melville has been with the bank since its inception in February 2006, previously serving as its Chief Administrative Officer. He was promoted to the position of Chief Executive Officer in March 2011.

(2) Mr. Hingle has been with the bank since July 2009, previously serving as its Southeastern Region Chief Executive Officer.

(3) Mr. Jordan has been with the bank since August 2008, previously serving as its Western Region Chief Executive Officer.

(4) Mr. Mansfield has been with the bank since April 2016, previously serving as its Chief Information Officer.

(5) Ms. Robertson has been with the bank since September 2011, previously serving as its Senior Vice President – Director of Deposit Services, Business Development and Treasury.

(6) Mr. Robertson has been with the bank since August 2011, previously serving as its Chief Banking Officer.

Board of Directors and Executive Officers

A brief description of the background of each of our directors and executive officers is set forth below. There are no arrangements between us and any person pursuant to which such person has been elected as a director. No director or executive officer has any family relationship, as defined in Item 401 of Regulation S-K, with any other director or executive officer or director. Since the filing of our Special Financial Report on Form 10-K for the fiscal year ended December 31, 2014, there have been no material changes to the procedures by which our shareholders may recommend nominees to our board of directors.

Lloyd Benny Alford. Benny Alford serves as a director for Business First and Business First Bank. Mr. Alford owns and operates Benny's Car Wash & Oil Change, headquartered in Baton Rouge, Louisiana. He was first employed by the car wash in 1964, and took over the operation from his father in 1970. He has since expanded services to include convenience stores, five oil changes, and seven car washes with more expansion planned for the future. Mr. Alford is past president of the International Car Wash Association and is in the Car Washing Hall of Fame. Mr. Alford brings to our board of directors valuable knowledge and experience relating to the ownership and management of small businesses.

John Graves. John Graves serves as a director for Business First and Business First Bank. Mr. Graves is President of Evans-Graves Engineers, Inc., in Baton Rouge, Louisiana, and has served as the firm's President since 1986. Mr. Graves holds a bachelor's degree in civil engineering from Louisiana State University. He previously represented East Baton Rouge Parish on the Regional Planning Commission for 26 years, and he presently serves as Chairman of the Civil and Environmental Engineering External Advisory Board at LSU. He also currently serves on the board of directors for Pennington Biomedical Research Foundation. Mr. Graves brings entrepreneurial and business building skills and experience to our board of directors. He also provides valuable insight and experience as a result of his service on the boards of directors for other companies and institutions.

Robert S. Greer, Jr. Mr. Greer serves as Chairman of the board of Business First and Business First Bank. Mr. Greer previously served as President of multiple insurance companies during his career. He retired in 2013 from his position as President and Chief Executive Officer of LEMIC Insurance Company, a workers' compensation insurer in Baton Rouge, Louisiana. Prior to his retirement, Mr. Greer served as the President and Chief Executive Officer of LEMIC Insurance Company since 2001. Mr. Greer holds a bachelor's degree in insurance from Louisiana State University. Mr. Greer also previously served as a director of Starmount Life Insurance and as a director of Woman's Hospital. Mr. Greer benefits our board of directors through his extensive business knowledge and experience in the insurance industry as well as with valuable insight gained through his service on other boards of directors. His commitment to our success is also demonstrated by his service as its Chairman of the board.

David L. Laxton, III. David L. Laxton, III serves as a director for Business First and Business First Bank. Mr. Laxton has over 35 years of experience in the energy and distribution industries. He was one of the founders of Edgen Group Inc., a global supplier of specialty pipe, fittings, plates, valves and structural steels to the energy industry. He served from its founding in 1996 as Executive Vice President and Chief Financial Officer until his retirement in 2014. During his tenure, he supervised the acquisition of more than a dozen companies located in the United States, Canada, the United Kingdom, Dubai and Singapore. He also co-led Edgen's initial public offering and listing on the New York Stock Exchange, and managed over $2.0 billion in company, bank and public market debt offerings. In addition to his experience in the energy industry, Mr. Laxton served on the board of directors of American Gateway Bank from 1996 until its 2015 merger with Business First Bank. While on that board, he served as Chairman for five years and also as Chairman of the Audit Committee. Our board of directors believes that it will benefit from Mr. Laxton's valuable corporate and banking experience, as well as from his specific knowledge regarding the markets and customers served by the recently acquired American Gateway Bank.

Rolfe Hood McCollister, Jr. Rolfe McCollister, Jr. serves as a director for Business First and Business First Bank. Mr. McCollister is the founder of Louisiana Business, Inc., which publishes *Greater Baton Rouge Business Report (*started in 1982), *225* magazine*, inRegister* magazine, Daily Report online news, *Louisiana NEXT, Welcome* magazine, *10/12 Industry Report* and other specialty publications. Louisiana Business, Inc. also produces the Baton Rouge Business Awards and Hall of Fame, Influential Women in Business, the Louisiana Business Symposium, Forty Under 40 and several other annual events. Mr. McCollister is a graduate of Louisiana State University and currently serves as a board member of the LSU System Board of Supervisors. His business management experience, previous service on the board of directors of three banks, and many community contacts enable him to make valuable contributions to our board of directors.

Andrew D. McLindon. Andrew McLindon serves as a director for Business First and Business First Bank. Mr. McLindon has served since 1989 as President and Chief Executive Officer of Mainspring Companies, LLC, a management firm that oversees operations for the following companies: MBD Construction, a commercial construction firm; MBD Maintenance, a commercial building maintenance company; MBD Automation, an automated equipment installation provider; Genlease, a provider of emergency power solutions; McLindon Development, a real estate development company; 4 Real Estate Services, a property management company; and Modus, LLD, a national facility services company. Mr. McLindon earned a bachelor's degree in construction management from Louisiana State University. Mr. McLindon brings executive decision-making, leadership and risk assessment skills to our board of directors as a result of his experience in the construction industry. His experience in real estate development and construction also benefit our board of directors.

David R. Melville III. David R. "Jude" Melville, III serves as a director, president, and Chief Executive Officer of Business First and Business First Bank. He has served in these capacities since 2011 and has held various management roles since the Bank's chartering in 2006. Prior to becoming a community banker, Mr. Melville served as a captain in the U. S. Air Force. He earned a bachelor's degree in social studies from Harvard College and a Master's of Science in Management from the London School of Economics. Mr. Melville is also a 2007 graduate of the Graduate School of Banking at Louisiana State University. He serves on the executive board of the Louisiana Association of Business and Industry and as a member of Louisiana's Committee of 100, a board member of the Louisiana Bankers Association and a member of the Federal Reserve Sixth District's Depository Institutions Advisory Council, among other affiliations.

Patrick E. Mockler. Patrick Mockler serves as a director for Business First and Business First Bank. Mr. Mockler has served as President of Mockler Beverage Company, ALP since 2007, and has been a partner of Mockler Beverage Company, ALP since 1995. Mr. Mockler holds a bachelor's degree in international trade and finance from Louisiana State University. He has also served as a partner of New Orleans Eagle Investments, LLC since 2009. Mr. Mockler is an active participant in his community, having served in various capacities on over a dozen non-profit boards. Currently Mr. Mockler serves on the Louisiana Workers Compensation Corporation board and as the Treasurer and Secretary of the Baton Rouge Area Sports Foundation board. Mr. Mockler brings valuable business management skills and key relationships to our board of directors.

David A. Montgomery, Jr. David Montgomery serves as a director for Business First and Business First Bank. Mr. Montgomery has served as Vice President of Montgomery Agency, Inc., an independent insurance agency, since 1990. Mr. Montgomery is a Certified Public Accountant and he is currently a councilman at large with Bossier City, Louisiana. He also served for 14 years as the Chairman of the Budget Committee for the Bossier City Council. Since 1996, Mr. Montgomery has served on the Finance Committee for North Louisiana Volunteers of America. Mr. Montgomery holds a bachelor's degree in accounting from Louisiana State University. Mr. Montgomery brings extensive knowledge of the insurance and accounting industries to our board of directors. He also provides valuable knowledge and insight derived from his service for civic and governmental organizations.

Arthur Price. Arthur Price serves as a director for Business First and Business First Bank. Mr. Price has served as Vice President, Finance / CFO for Badger Oil Corporation for over twenty years. Badger Oil and its affiliates participate in the exploration, drilling and production of crude oil and natural gas, with primary operations in the Louisiana Gulf Coast region and the Outer Continental Shelf of the Gulf of Mexico. Prior to joining Badger Oil, Mr. Price worked as an oil and gas accountant with a specialized firm located in Lafayette, Louisiana. As a senior member of the oil and gas community, Mr. Price is an active board member of the Louisiana Oil and Gas Association and the Louisiana Association of Business and Industry. Mr. Price is also a former member of the board of The Lafayette Petroleum Club, having served as Treasurer and President. Mr. Price received a Bachelor of Science degree in Business Administration from the University of Southwestern Louisiana (now The University of Louisiana, Lafayette) in 1989 and is a Certified Public Accountant.

Fayez K. Shamieh, M.D. Dr. Fayez Shamieh serves as a director for Business First and Business First Bank. Dr. Shamieh is a physician specializing in neurology. In 1979, Dr. Shamieh founded Neuro Associates in Lake Charles, Louisiana, and has been a senior member at the clinic since that time. Dr. Shamieh earned a degree in medicine from Ain Shams University in Cairo, Egypt. He completed his Neurology Residency and a fellowship in Neurophysiology at Baylor College of Medicine in Houston, Texas. Dr. Shamieh has been a member of a nonprofit organization called Physicians for Peace, headquartered in Norfolk, Virginia, where for the past 23 years the volunteer members from all over the United States provide and enhance the up to date advances and the teaching to the medical communities of the needy countries all over the world. In addition to treating the most difficult and complicated cases, these volunteers carry with them donated equipment and huge amounts of medicine. Dr. Shamieh concentrated and led the medical missions to the Palestinian West Bank and the area of the Holy Land at least once or twice a year. He currently serves as a counselor for Southern Medical Associates and has previously served on the board of directors for the Louisiana State Medical Society. Dr. Shamieh brings entrepreneurial and business building skills and experience to our board of directors, having successfully managed his own medical clinic for over thirty years. He also has valuable connections within the business and medical communities we serve.

C. Stewart Slack. Stewart Slack serves as a director for Business First and Business First Bank. Mr. Slack currently serves as Vice President of Business Development for KDC Real Estate Development & Investments, a national real estate development company. From 1998 to 2013 Mr. Slack was a partner in Slack-Alost Development, a regional real estate development company. Mr. Slack also served as founder and President of Slack Alost Architecture from 1985 to 2013. Mr. Slack served as a director for Premier Bank, later Bank One, from 1989 to 2000. Mr. Slack serves on the board of directors for the LSU Honors College, and was the state-wide fund raising chairman for the national "Forever LSU" endowment fund campaign. For almost 20 years he served on the board of directors for The One Foundation, a North Louisiana philanthropic fund supporting non-profits. Mr. Slack was also a long time board member and past President of The Strand Theater Corporation, board of directors for the Shreveport Chamber of Commerce, Committee of 100, and the LSU Health Sciences Center Foundation Board. In 2000, Mr. Slack was appointed to a six year term on the LSU Board of Supervisors and was elected Chairman in 2004. Mr. Slack obtained a professional degree in Architecture from Louisiana State University. He has extensive business knowledge and experience in real estate, architecture and construction. His experience, combined with his service on other boards of directors, benefits us. Most notably, Mr. Slack brings to our board of directors over ten years of prior experience as a bank director.

Kenneth Smith, PE, PLS. Kenneth Smith serves as a director for Business First and Business First Bank. Mr. Smith, a Professional Engineer and Land Surveyor, is President and Chief Executive Officer of T. Baker Smith, LLC, a professional services firm that provides planning, environmental, surveying, engineering, and construction management services. Mr. Smith has been with T. Baker Smith, LLC since 1980. He also serves as Managing Partner for the following companies: TBS Mexico, TBS Holding, LLC, a real-estate holding company; Four C's of Houma, LLC, a personal investment company; and Mega Beast Commercial Realty, a commercial real estate company. Mr. Smith served as the President for the Houma Terrebonne Chamber of Commerce, South Central Industrial Association, South Louisiana Economic Council, and the Louisiana Pipeliners Association, and he currently serves as a member of the Louisiana Oil & Gas Association and Louisiana Association of Business & Industry. Mr. Smith earned a degree in civil engineering from Louisiana Tech University. He brings extensive business skills and experience to our board of directors, having successfully managed his own business for many years. Mr. Smith is also an active leader in his community and serves on the boards of many civic organizations. His many professional and community contacts benefit our board of directors.

Thomas Everett Stewart, Jr. Everett Stewart serves as a director for Business First and Business First Bank. Mr. Stewart has been retired since 2009. From 1988 to 2009, he served as President of Interstate Logos, LLC, a wholly-owned subsidiary of the Lamar Advertising Company. Mr. Stewart also served as a board member of Lamar Advertising Company for several years, and he served on the board of The Business Bank of Baton Rouge for two years. Mr. Stewart earned a Bachelor of Science degree in business administration from Auburn University. He has extensive business knowledge and brings years of experience managing a subsidiary of a publicly-traded company to our board of directors.

Steve White. Steve White serves as a director for Business First and Business First Bank. Mr. White has served as the Business Manager for the William A. Robinson Trust since January of 2009. He also serves as a member of the board of directors of Bear Creek Services, an oil and gas venture with development and production in an approximate four-state area. Mr. White's previous work experiences include serving in roles as President, Senior Vice President, and other executive roles in U.S. and international logistic businesses. He also served as a Chief Operations Officer in the home health and hospice industry. Mr. White graduated from Louisiana Tech University with a Bachelor of Science degree in petroleum engineering in 1985. Mr. White's experience in asset management and his knowledge of the oil and gas industry are valuable to our board of directors.

Robert Yarborough. Mr. Yarborough serves as a director for Business First and Business First Bank. Mr. Yarborough is the Chief Executive Officer and co-owner of Manda Fine Meats, a meat processing company headquartered in Baton Rouge, Louisiana. Mr. Yarborough has been with Manda Fine Meats since 1976. He earned a bachelor's degree in marketing from Southeastern Louisiana University. Mr. Yarborough has served as a director for a number of non-profits and business associations, and currently serves as a board member of the LSU System Board of Supervisors. Mr. Yarborough brings leadership, business knowledge and valuable community contacts to our board of directors through his long experience in managing a business and through his service on various other boards.

Donald A. Hingle, II. Mr. Hingle has been with Business First Bank since July 2009 and currently serves as the Executive Vice President, Chief Credit Executive. Prior to January 2017, Mr. Hingle served as the Executive Vice President of the Southeastern Region, which includes the Houma, Covington and New Orleans markets. Prior to his promotion to Executive Vice President in February of 2014, Mr. Hingle served as the Regional President of Business First Bank's Bayou Region (Houma Market). Mr. Hingle manages all aspects of the credit function of the Bank including credit analysis, credit reporting, loan documentation and loan services, asset based lending and the appraisal department. He has 35 years of banking experience. Mr. Hingle has a Bachelor's Degree in Finance and a Master's of Business Administration from the University of New Orleans.

Philip Jordan. Mr. Jordan has been with Business First Bank since August 2008 and currently serves as the Chief Commercial Officer, leading the unified commercial banking team that includes each of the Bank's markets as well as the not for profit finance division. Prior to January 2017, Mr. Jordan was the Western Region Chief Executive Officer which included the southwest, northwest and Lafayette areas of Louisiana. Prior to his promotion to Executive Vice President in July 2015, Mr. Jordan served as Regional President of Business First Bank's Northwest Louisiana division. Mr. Jordan holds a Finance degree from Louisiana Tech University.

Keith Mansfield With nearly 20 years of banking experience Mr. Mansfield serves as Executive Vice President and Chief Operations Officer for Business First Bank. In his role as Chief Operations Officer, Mr. Mansfield is responsible for all aspects of the Bank's operations, which include information technology, electronic banking, deposit operations, branch and treasury operations, business intelligence, marketing, facilities, security, and vendor management. Mr. Mansfield served most recently as the Bank's Chief Information Officer. Before joining Business First Bank, Mr. Mansfield served as the Chief Technology Officer for a regional financial institution in the Southeast. He was responsible for directing the planning and implementation of enterprise IT systems in support of business operations and was responsible for managing the Information Technology Group. In addition, he had responsibility for business continuity, information security, and trust operations. Mr. Mansfield began his career in 1998 as a Management Trainee and has served in many roles including manager of the Electronic Banking, Internet Banking, and Wire Transfer departments. Mr. Mansfield received a Bachelor of Business Administration in Accounting from the University of Tennessee at Martin, graduating with high honors and being named the Outstanding Student in Accounting and Administrative Services.

Alicia Robertson. With more than 30 years of banking experience Ms. Robertson serves as Executive Vice President and Chief Retail Officer for Business First Bank. In her role as Chief Retail Officer, Ms. Robertson is responsible for retail network production, wealth solutions, private banking and treasury management. During her tenure with Business First Bank, Ms. Robertson also managed electronic banking, deposit operations, branch and treasury operations. Prior to Business First Bank, Ms. Robertson served as a private banker and treasury management sales officer with a focus on commercial banking.

Gregory Robertson. Mr. Robertson has served as the Executive Vice President and Chief Financial Officer of Business First Bank since January 2017 and has been with Business First since 2011. He previously served as our Chief Banking Officer. He has been in the banking business since 1996. Mr. Robertson worked at City Savings Bank and Trust Co. from 1996 to 2011, where he served in many capacities, including branch manager, commercial lender, program manager for City Savings Financial Services, and Senior Vice President. As Chief Financial Officer for Business First Bank, he leads the finance and risk areas of the Bank including accounting, treasury and investments, credit, special assets, Bank Secrecy Act, compliance, internal audit, enterprise risk management, risk analytics, and project management. Mr. Robertson graduated from Northwestern State University in 1993 with a Bachelor of Science degree.

Corporate Governance Principles and Code of Ethics

We are committed to having sound corporate governance principles, both at the holding company level and at Business First Bank. Such principles are essential to running our business efficiently and to maintaining our integrity in the marketplace. We have adopted a set of corporate governance guidelines that embodies these principles. We have adopted a Code of Business Conduct and Ethics that applies to all officers, directors, and employees, in accordance with applicable SEC rules. Our Code of Business Conduct and Ethics is posted on our Internet website (www.b1bank.com) under the Shareholder Information page.

Director Independence

The Audit Committee of our board of directors has determined that a majority of our directors are independent, as that term is defined below. The Audit Committee has determined that Mr. Melville is not independent, because he is an employee of Business First Bank. The Audit Committee annually reviews relationships that exist between Business First and each director and his or her related interests for the purpose of determining whether the director is independent. The full board conducts this review on directors serving as members of the Audit Committee. A director is presumed to be independent unless the director (or his or her immediate family members):

- has been an employee or executive of Business First or Business First Bank at any time during the last three years;
- has been an employee or partner of Business First’s independent registered public accounting firm at any time during the last three years;
- is an owner, partner, employee or director of an entity with material relationships (i.e., makes payments to, or receives payments from, Business First or Business First Bank which exceed the greater of $500,000 or 2% of the entity’s gross revenues) with Business First or Business First Bank, either as a vendor or customer, except in situations where revenues are generated as a result of a competitive bid process in which the board of directors determines the business relationship is in the best interest of Business First; or
- receives more than $100,000 per year in direct compensation from Business First, other than director and related fees.

The Audit Committee does not consider any additional transactions below the threshold amount of $100,000 in determining whether any director is independent.

Audit Committee

Our board of directors has established an Audit Committee to assist it in fulfilling its responsibilities for general oversight of the integrity of our consolidated financial statements, compliance with legal and regulatory requirements, the independent auditors' qualifications and independence, the performance of independent auditors and our internal audit function, and risk assessment and risk management. Our board of directors has determined that each of the members of the Audit Committee satisfies the independence and other composition requirements of the SEC. Members of our audit committee include:

- Patrick E. Mockler
- David A. Montgomery, Jr.
- Thomas Everett Stewart, Jr.
- Steve White
- Robert Yarborough

Our board of directors has determined that David A. Montgomery, Jr. qualifies as an "audit committee financial expert" under Item 407(d)(5) of Regulation S-K under the Securities Act, and has the requisite accounting or related financial expertise required by applicable SEC rules.

ITEM 11. EXECUTIVE COMPENSATION.

Business First's named executive officers for 2016, which consist of its principal executive officer and the two other most highly compensated executive officers, are:

- David R. ("Jude") Melville III, Business First's and Business First Bank's President and Chief Executive Officer;
- Gregory Robertson, Business First's Chief Financial Officer and Treasurer and Business First Bank's Executive Vice President and Chief Financial Officer; and
- Philip Jordan, Business First Bank's Executive Vice President and Chief Commercial Officer.

Summary Compensation Table

The following table provides information regarding the compensation of our named executive officers for the fiscal years ended December 31, 2016 and 2015. The compensation shown on the table below is paid to such employees by Business First Bank.

Name and Principal Position	Year ($)	Salary ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	All Other Comp.[1] ($)	Total ($)
David R. ("Jude") Melville III	2016	$ 350,000	—	$ 210,000	$ 44,034	$ 604,034
President and Chief Executive Officer	2015	$ 343,708	—	$ 210,000	$ 42,665	$ 596,373
Steven Champney[4]	2016	$ 663,997	—	$ —	$ 42,924	$ 706,921
Executive Vice President and Chief Financial Officer	2015	$ 251,759	—	$ 63,250	$ 49,940	$ 364,949
Robert Bond[4]	2016	$ 392,215	—	$ —	$ 39,545	$ 431,760
Executive Vice President, Capital Region Chief Executive Officer	2015	$ 246,667	—	$ 65,000	$ 47,039	$ 358,706
Gregory Robertson						
Executive Vice President and Chief Financial Officer	2016	$ 241,667	—	$ 80,000	$ 36,295	$ 357,962
Philip Jordan						
Executive Vice President and Chief Commercial Officer	2016	$ 202,333	—	$ 67,500	$ 34,134	$ 303,967

1. All Other Compensation for the named executive officers includes the total of the benefits and perquisites in the table below.
2. Paid in 2017 for service in 2016.
3. Paid in 2016 for service in 2015.
4. No longer employed by Business First Bank as of December 31, 2016. Salary amount includes severance benefits of $400,000 to Mr. Champney and $181,799 to Mr. Bond.

Named Executive Officer	Year ($)	Car Allowance	Health & Welfare Plan Premiums	Club Dues	Total
David R. (“Jude”) Melville III	2016	$ 10,728	$ 20,233	$ 13,073	$ 44,034
	2015	$ 10,728	$ 19,937	$ 12,000	$ 42,665
Steven Champney	2016	$ 8,046	$ 20,254	$ 14,624	$ 42,924
	2015	$ 10,728	$ 19,937	$ 19,275	$ 49,940
Robert Bond	2016	$ 8,940	$ 16,737	$ 13,868	$ 39,545
	2015	$ 10,728	$ 17,036	$ 19,275	$ 47,039
Gregory Robertson	2016	$ 10,728	$ 20,233	$ 5,334	$ 36,295
Philip Jordan	2016	$ 9,000	$ 19,304	$ 5,830	$ 34,134

Outstanding equity awards at 2016 fiscal year-end

The following table provides information regarding outstanding equity awards held by each of our named executive officers on December 31, 2016.

		Options Awards				
Name	Grant Date	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date
David R. (“Jude”) Melville III	05/17/2011	100,000	—	100,000(1)	$15.00	05/17/2021
	12/22/2006	—	92,400	92,400(2)	$10.00	01/15/2020
Gregory Robertson	07/31/2014	10,000	5,000	15,000(3)	$17.11	07/31/2024
	09/26/2011	10,000	—	10,000(3)	$15.00	09/26/2021
Philip Jordan	07/31/2014	5,000	2,500	7,500(3)	$17.11	07/31/2024
	11/29/2012	10,000	—	10,000(3)	$15.00	11/29/2022
	10/20/2008	12,500	2,500	15,000(4)	$12.00	10/20/2018
Steven Champney	09/01/2008	45,000	5,000	50,000(5)	$12.00	09/01/2018
Robert Bond	05/17/2011	40,000	—	40,000(1)	$15.00	01/10/2017(6)
	07/19/2010	13,500	9,000	22,500(4)	$15.00	01/10/2017(6)
	06/15/2009	5,250	2,250	7,500(4)	$15.00	01/10/2017(6)

(1) Options vest over a period of 4 years following the date of grant.
(2) Options vested over a period of ten years following the date of grant. Options were extended December 20, 2016 to expire on January 15, 2020. Amendment retains $10 exercise price but restricts the situations in which the options may be exercised to occur upon the earlier of (i) immediately prior to the January 15, 2020 expiration date, (ii) a change in control of Business First or the Bank, (iii) the option holder’s death, (iv) the option holder becoming disabled, and (v) the option holder incurring a separation from Business First and the Bank.
(3) Options vest over a period of 3 years following the date of grant.
(4) Options vest over a period of 10 years following the date of grant.
(5) Options vest over a period of 9 years following the date of grant, and converted to nonstatutory stock options at termination of employment.
(6) Options expired 90 days after termination of employment.

Employment Agreements

Business First Bank is a party to employment agreements with certain of its named executive officers and certain of its other employees. With respect to its named executive officers, Business First Bank has entered into an employment agreement with each of David (“Jude”) Melville III and Steven Champney. A summary description of the employment agreements with each of these named executive officers is set forth below.

David Melville, III. Business First Bank has entered into an employment agreement with David ("Jude") Melville, III regarding his service as its Chief Executive Officer. The employment agreement with Mr. Melville provides for an automatically renewing one-year term unless Business First Bank gives notice to Mr. Melville at least 90 days prior to the end of the term that the term will not be extended. The agreement, as amended, provides for Mr. Melville to receive a base salary of not less than $274,500 annually, as well as for Mr. Melville's participation in benefit plans and incentive bonus plans offered by Business First Bank. Mr. Melville is also entitled to paid vacation, a vehicle allowance, a country club membership and health insurance.

If Mr. Melville's employment is terminated by Business First Bank without cause (as defined in the agreement) during the term of the agreement or if Mr. Melville terminates is his employment for good reason (as defined in the agreement), he will be entitled to payment of an amount equal to two times his then current annual base salary, plus certain continued benefits to which he would otherwise be entitled in accordance with the terms and provisions of any such plans or programs. In addition, if, following a change-in-control (as defined in the agreement) of Business First or Business First Bank, Mr. Melville remains employed for a 12 month period, he will be permitted to terminate his employment for any reason within 90 days of the end of such 12 month period and receive compensation as if he had terminated his employment for good reason. Mr. Melville would also be provided with a tax "gross-up" payment if any of the payments above subject him to certain excise taxes.

Steven Champney. Business First Bank has entered into an employment agreement with Steven Champney regarding his service as its Executive Vice President and Chief Financial Officer. The employment agreement with Mr. Champney provides for a term ending August 31, 2018; provided, that the agreement renews for an additional two years at the end of the term (and each extension of the term) unless Business First Bank gives notice to Mr. Champney at least 60 days prior to the end of the term that the term will not be extended. The agreement, as amended, provides for Mr. Champney to receive a base salary of not less than $239,200 annually, as well as for Mr. Champney's participation in benefit plans and incentive bonus plans offered by Business First Bank. Mr. Champney is also entitled to paid vacation, a vehicle allowance, membership in a country club and health insurance. The agreement further provides for the issuance of options to purchase 50,000 shares of our common stock, which options continue to vest in equal increments over a term of ten years from the date they were granted. The agreement also provides for Mr. Champney's participation in future grants of stock options to Business First Bank's senior executives.

Mr. Champney's employment agreement, as amended, provides for severance equal to that of other senior executive officers, other than the Chief Executive Officer and/or one other designee of Business First Bank. Mr. Champney was no longer employed by the Bank as of September 30, 2016.

Other Employment Arrangements. In addition to the employment agreements described above, Business First Bank has entered into employment and/or compensation arrangements with certain of its officers with varying terms taking into consideration the nature of the position and the particular individual's skills and experience. Our overall executive compensation program is designed to attract, motivate, reward and retain key members of our management. A major goal of our compensation program is to align the compensation structure for our executives with shareholders' interests and current market practices.

All of our officers serve at the pleasure of our board of directors. If any of these individuals leaves his or her respective position, our business, financial condition, results of operations may suffer.

Equity Incentive Plans

In 2006, our board of directors adopted the 2006 Stock Option Plan pursuant to which we were permitted to issue stock options to purchase up to 1,500,000 shares of our common stock, all of which could be issued as either incentive stock options under Section 422A of the Internal Revenue Code of 1986, as amended, or non-qualified stock options. Although our 2006 Stock Option Plan expired on December 22, 2016 and we are no longer permitted to issue additional stock options under this plan, as of December 31, 2016, we had 998,480 outstanding and unexercised stock options, of which 892,548 were vested, that have been issued to our executive officers and key personnel and remain subject to the terms and conditions of the 2006 Stock Option Plan until they are exercise or forfeited. At December 31, 2016, the weighted average exercise price of the stock options issued under our 2006 Stock Option Plan was $12.82.

Our Stock Option Plan is intended to provide certain of our officers, directors and employees the opportunity to acquire a proprietary interest in our success by granting stock option awards to such individuals. Specifically, the plans are intended to advance our interests by (1) enabling us to attract and retain the best available individuals for positions of substantial responsibility; (2) providing additional incentive to such persons by affording them an opportunity for equity participation in our business; and (3) rewarding officers, directors and employees for their contributions.

Our Stock Option Plan is administered by our board of directors. Our board of directors has authority with respect to the plan to:

- modify the requirements of the plan to conform with the law or to meet special circumstances not anticipated or covered in the plan;
- establish policies; and
- adopt rules and regulations and prescribe forms for carrying out the purposes and provisions of the plan.

Under the plan, the aggregate fair market value (determined as of the date an option is granted) of the shares with respect to which Incentive Stock Options are exercisable for the first time by any optionee during any calendar year may not exceed $100,000. The option price to be paid upon exercise of an Incentive Stock Option or a Non-Qualified Option is determined by our board of directors, but in no event may such price be less than the fair market value per share of our common stock on the date of the grant.

Our board of directors has the discretion to fix the period during which any option (including Incentive Stock Options and Non-Qualified Options) may be exercised, provided that no options may be exercised more than 10 years after the date of grant. However, expiring options may be amended and extended at the discretion of our board of directors. Each option may be exercised upon such terms and conditions as our board of directors determines. In making any determination as to whom options shall be granted, and as to the number of shares to be covered by such options, our board of directors considers the duties of the respective officers, directors and employees, their present and potential contributions to our success, profitability and growth, and such other factors as the board deems relevant in connection with accomplishing the purposes of the Stock Option Plan.

Supplemental Executive Retirement Plan

Business First Bank maintains a Supplemental Executive Retirement Plan ("SERP") which provides a select group of management with salary continuation benefits upon their retirement, or death benefits to their named beneficiary in the event of their death. The SERP, which was established August 1, 2009, is an unfunded nonqualified deferred compensation plan where certain executives of Business First Bank are selected to participate in the plan at the discretion of the board of directors. SERP benefits are based upon the position and salary of the executive officer at retirement, disability or death. Normal retirement benefits under the plan for Tier I executive officers are equal to 50% of the participant's average compensation, payable over the longer of 180 months or the participant's life. Normal retirement benefits under the plan for Tier II executives are equal to 25% of the participant's average compensation, payable over 180 months. The SERP is administered by The Pangburn Group, who also provide guidance to Business First Bank relating to the valuation method and assumptions.

Benefits are also available in the event of death, disability or early retirement. Under the early retirement provisions for certain executives, if separation from service occurs after reaching early retirement age and prior to normal retirement age, Business First Bank will pay the executive a reduced benefit equal to the vested accrued benefit calculated as of the early retirement date, payable in 180 equal monthly installments beginning on the normal retirement date. For other executives, instead of an early retirement benefit, the separation from service benefit prior to normal retirement age provides the executive with a separation from service benefit equal to the participant's vested accrued benefit payable in 180 equal monthly installments commencing within 30 days of the date of separation. The early retirement age means the date the executive attained age fifty-five and completed 10 years of service. The normal retirement age is the date the executive attained age sixty-five.

In the event the participant dies prior to the commencement of benefits under the plan, the executive's beneficiary will be entitled to a survivor's benefit which equals the amount of the vested accrued benefit, calculated as of the date of death, and payable in a single lump sum within 90 days following the date of death. If the executive dies after the commencement of benefits but prior to receiving all such payments due and owing under the plan, the unpaid balance of the payments will continue to be paid to the executive's beneficiary for the remainder of the payout period.

If the participant becomes disabled prior to commencement of benefits under the plan, a disability benefit equal to the executive's vested accrued benefit calculated as of the disability date shall be payable in 180 equal monthly installments commencing within 30 days of the disability determination date.

Upon a change of control prior to separation from service, the participant shall become 100% vested in his or her accrued benefit, calculated as of the effective date of the change of control. Business First Bank will pay the executive the change of control benefit in a single lump sum amount within 30 days following that date.

For purposes of calculating the participant's vested accrued benefit, the executive shall become 100% vested upon completion of ten years of service and the attainment of age fifty-five. Prior to the completion of ten years of service and the attainment of age fifty-five, the participant shall be zero percent vested. However, in the event of a participant's death or disability, or a change in control, the executive shall become one hundred percent vested.

The benefits under the SERP will be paid out of the general unrestricted assets of Business First Bank. The Bank has elected to purchase life insurance contracts, more specifically Bank Owned Life Insurance ("BOLI"), each of which may be used as a source of liquidity to fund these future benefits. Business First Bank is the owner and beneficiary of these life insurance policies, which are general assets of the Bank.

Split-Dollar Agreement

Business First Bank owns two split-dollar endorsement policies covering the life of the Chairman Emeritus. Under the terms of the August 1, 2009 agreement, the Bank will be entitled to a share of the policy proceeds equal to the dollar amount of cumulative premiums paid for the policies. The remainder of the policy proceeds will be paid to the Chairman Emeritus' beneficiaries.

Director Compensation

Each of our directors who is not also an executive officer of Business First Bank receives compensation for attending various board of directors and committee meetings. Our directors who are not executive officers of Business First Bank or Chairman of the board receive $500.00 for their attendance at each board meeting. Our directors who are not executive officers also receive a monthly retainer. Our Chairman of the board receives a monthly retainer of $11,333.34 and a monthly auto allowance of $894.00. Each director receives a monthly retainer of $416.67, and each Committee Chairperson receives an additional monthly retainer of $333.33, except if the Chairman of the board is a Committee Chairperson, no additional monthly retainer is paid. If any committee meets on a non-board meeting day, each member, including the Chairperson, receives $250.00 for each meeting attended on a non-board meeting day.

The following table sets forth compensation paid, earned or awarded during 2016 to each of our directors and the directors of Business First Bank, other than directors who are also named executive officers, whose compensation is described in the *"Summary Compensation Table"* above.

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)	Total ($)
Lloyd Benny Alford	$ 15,500	—	$ 15,500
John Graves	$ 16,250	—	$ 16,250
Robert S. Greer Jr.	$ 153,728	—	$ 153,728
David L. Laxton III	$ 14,083	—	$ 14,083
Rolfe Hood McCollister Jr.	$ 11,667	—	$ 11,667
Andrew D. McLindon	$ 15,500	—	$ 15,500
Patrick E. Mockler	$ 10,500	—	$ 10,500
David A. Montgomery, Jr.	$ 14,500	—	$ 14,500
Arthur Price	$ 15,500	—	$ 15,500
Fayez K. Shamieh	$ 10,500	—	$ 10,500
C. Stewart Slack	$ 19,750	—	$ 19,750
Kenneth Smith	$ 15,500	—	$ 15,500
Thomas Everett Stewart Jr.	$ 10,000	—	$ 10,000
Steve White	$ 10,500	—	$ 10,500
Robert Yarborough	$ 14,500	—	$ 14,500

Directors have been and will continue to be reimbursed for travel, food, lodging and other expenses directly related to their activities as directors. Directors are also entitled to the protection provided by the indemnification provisions in our current articles of incorporation and bylaws.

Risk Assessment of Compensation Policies and Practices

In connection with its evaluation and review of our policies and practices of compensating employees, including executives and nonexecutive employees, as such policies and practices relate to risk management practices and risk-taking, the Compensation Committee of our board of directors has determined that our compensation plans and practices are not likely to have a material adverse effect on Business First.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth certain information regarding the beneficial ownership of our common stock as of March 10, 2017, by (1) our directors and executive officers, (2) each person who is known by us to own beneficially 5% or more of the our common stock and (3) all directors and executive officers as a group. Unless otherwise indicated, based on information furnished by such shareholders, our management believes that each person has sole voting and dispositive power over the shares indicated as owned by such person. Unless otherwise indicated below, the address for each of the listed beneficial owners is 500 Laurel Street, Suite 101, Baton Rouge, Louisiana 70801.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage Beneficially Owned[1]
Directors and Executive Officers		
Lloyd Benny Alford	30,000	*
John Graves	29,000	*
Robert S. Greer, Jr.	3,500	*
David L. Laxton, III	20,328	*
Rolfe Hood McCollister Jr.	82,500(2)	1.2%
Andrew D. McLindon	20,000	*
David R. Melville, III	193,000(3)	2.8%
Patrick E. Mockler	3,633	*
David A. Montgomery, Jr.	5,000	*
Arthur Price	10,000(4)	*
Fayez K. Shamieh	23,218	*
C. Stewart Slack	10,000	*
Kenneth Smith	37,000	*
Thomas Everett Stewart Jr.	127,500(5)	1.8%
Robert Yarborough	30,000	*
Steven Champney	45,000(6)	*
Donald A. Hingle, II	25,000(7)	*
Philip Jordan	27,500(8)	*
Keith Mansfield	10,000(9)	*
Alicia Robertson	10,000(10)	*
Gregory Robertson	20,000(11)	*
Directors and Executive Officers as a group (21 persons)	762,179	10.5%(12)

* Indicates ownership which does not exceed 1.0% .

(1) The percentage beneficially owned was calculated based on 6,914,179 shares of our common stock issued and outstanding as of March 10, 2017 (rounded to the nearest tenth of a percent).

(2) Includes (i) 53,750 shares held directly by Mr. McCollister, (ii) 5,000 shares held by Mr. McCollister's spouse, and (iii) warrants to purchase 23,750 shares of common stock.

(3) Includes (i) 600 shares held directly by Mr. Melville, and (ii) vested options to purchase 192,400 shares of common stock.

(4) Includes 10,000 shares held by PEMP Investments, LLC, a company controlled by Mr. Price.

(5) Includes (i) 103,750 shares held jointly by Mr. Stewart and his spouse, and (ii) warrants to purchase 23,750 shares of common stock.

(6) Includes vested options to purchase 45,000 shares of common stock.

(7) Includes vested options to purchase 25,000 shares of common stock.

(8) Includes vested options to purchase 27,500 shares of common stock.

(9) Includes vested options to purchase 10,000 shares of common stock.

(10) Includes vested options to purchase 10,000 shares of common stock.

(11) Includes vested options to purchase 20,000 shares of common stock.

(12) Calculation of percentage ownership is based upon 7,291,579 shares of our common stock outstanding, which assumes the exercise of all options and warrants held by the above-listed individuals.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

In addition to the compensation arrangements with directors and executive officers described in the "*Executive Compensation"* section above, the following is a description of each transaction since January 1, 2016, and each proposed transaction in which:

- we have been or are to be a participant;
- the amount involved exceeds or will exceed $120,000; and
- any of our directors, executive officers, or beneficial holders of more than 5% of our capital stock, or any immediate family member of or person sharing the household with any of these individuals (other than tenants or employees), had or will have a direct or indirect material interest.

Ordinary Banking Relationships

Certain of our officers, directors and principal shareholders, as well as their immediate family members and affiliates, are customers of, or have participated in transactions with, Business First Bank or us in the ordinary course of business. These transactions include deposits, loans and other financial services related transactions. Such related party transactions are made in the ordinary course of business, on substantially the same terms, including interest rates and collateral (where applicable), as those prevailing at the time for comparable transactions with persons not related to us, and do not involve more than normal risk of collectability or present other features unfavorable to us. As of the date of this Report, no related party loans were categorized as nonaccrual, past due, restructured or potential problem loans. We expect to continue to enter into transactions in the ordinary course of business on similar terms with our officers, directors and principal shareholders, as well as their immediate family members and affiliates.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Fees to Hannis T. Bourgeois, LLP

The following table presents fees for professional services rendered by Hannis T. Bourgeois, LLP for 2016 and 2015:

	2016	2015
Audit fees	$ 166,150	$ 154,551
Audit-related fees	10,800	9,526
Tax fees	10,550	21,100
All other fees	15,900	—
Total	$ 203,400	$ 185,177

As defined by the SEC, (i) "audit fees" are fees for professional services rendered by the independent registered public accounting firm for the audit of our annual financial statements and review of financial statements included in our Form 10-Q, or for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years; (ii) "audit-related fees" are fees for assurance and related services by our principal accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "audit fees;" such services include an audit of our 401(k) plan; (iii) "tax fees" are fees for professional services rendered by our principal accountant for tax compliance, tax advice, and tax planning; and (iv) "all other fees" are fees for products and services provided by our principal accountant, other than the services reported under "audit fees," "audit-related fees," and "tax fees."

The Audit Committee of our board of directors pre-approves all audit and non-audit services performed by our independent registered public accounting firm to assure that the provision of such services does not impair their independence.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) List of documents filed as part of this Report

(1) Financial Statements

The following financial statements are included in Item 8 of this Report:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income
Consolidated Statements of Changes in Stockholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

Financial statement schedules are omitted either because they are not required or are not applicable, or because the required information is shown in the financial statements or notes thereto.

(3) Exhibits

NUMBER	DESCRIPTION
2.1	Agreement and Plan of Reorganization, dated as of July 23, 2014, by and among, Business First Bancshares, Inc., American Gateway Financial Corporation and B1B Interim Corporation (incorporated by reference to Exhibit 2.1 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).
2.2	First Amendment, dated November 10, 2014, to the Agreement and Plan of Reorganization, dated as of July 23, 2014, by and among, Business First Bancshares, Inc., American Gateway Financial Corporation and B1B Interim Corporation (incorporated by reference to Exhibit 2.2 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).
3.1	Amended and Restated Articles of Incorporation of Business First Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).
3.2	Bylaws of Business First Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).
10.1	Executive Employment Agreement by and between Business First Bank and David R. Melville, III, dated August 6, 2009 (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).
10.2	Amendment to Executive Employment Agreement by and between Business First Bank and David R. Melville, III, dated April 1, 2011 (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).
10.3	Executive Employment Agreement by and between Business First Bank and Steven Champney, dated September 1, 2008 (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).
10.4	Memorandum Amendment to Executive Employment Agreement between Business First Bank and Steven Champney, dated March 5, 2010 (incorporated by reference to Exhibit 10.4 included in the Company's Annual Report on Form 10-K, dated as of December 31, 2015 and filed March 21, 2016 (File No. 333-200112)).
10.5	Business First Bancshares, 2006 Stock Option Plan ("2006 Stock Option Plan") (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).

10.6	Form of Incentive Stock Option Award Agreement under 2006 Stock Option Plan (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112))
10.7	Form of Incentive Stock Option Award Agreement (As Amended), under 2006 Stock Option Plan (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112))
10.8	Form of Warrant Agreement (incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).
10.9	Amendment No. 1 to the 2006 Stock Option Plan, dated December 17, 2007 (incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014 (File No. 333-200112)).
10.10	Business First, Amendment No. 2 to Warrant Agreement, dated February 1, 2016 (incorporated by reference to Exhibit 10.10 included in the Company's Annual Report on Form 10-K, dated as of December 31, 2015 and filed March 21, 2016 (File No. 333-200112)).
21.1	List of subsidiaries of Business First Bancshares, Inc.*
24.1	Power of Attorney (contained on the signature page hereto).*
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of the Chief Executive Officer and Chief Financial Officer provided pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* Filed Herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BUSINESS FIRST BANCSHARES, INC.

March 20, 2017

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

The undersigned directors and officers do hereby constitute and appoint David R. Melville, III and Gregory Robertson and either of them, our true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, to do any and all acts and things in our name and behalf in our capacities as directors and officers, and to execute any and all instruments for us and in our names in the capacities indicated below, that such person may deem necessary or advisable to enable Business First Bancshares, Inc. to comply with the Securities Exchange Act of 1934 and any rules, regulations and requirements of the Securities and Exchange Commission in connection with this Annual Report on Form 10-K for the fiscal year ended December 31, 2016, including specifically, but not limited to, power and authority to sign for us, or any of us, in the capacities indicated below, any and all amendments hereto; and we do hereby ratify and confirm all that such person or persons shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 20th day of March, 2017.

	Signature	Title	Date
By:	/s/ David R. Melville, III David R. Melville, III	President, Chief Executive Officer and Director (Principal Executive Officer)	March 20, 2017
By:	/s/ Gregory Robertson Gregory Robertson	Chief Financial Officer (Principal Financial Officer)	March 20, 2017
By	/s/ Lloyd Benny Alford Lloyd Benny Alford	Director	March 20, 2017
By:	/s/ John Graves John Graves	Director	March 20, 2017
By:	/s/ Robert S. Greer Jr. Robert S. Greer Jr.	Chairman of the Board and Director	March 20, 2017
By	/s/ David L. Laxton, III David L. Laxton, III	Director	March 20, 2017

Signature		Title	Date
By	/s/ Rolfe Hood McCollister Jr. Rolfe Hood McCollister Jr.	Director	March 20, 2017
By:	/s/ Andrew D. McLindon Andrew D. McLindon	Director	March 20, 2017
By:	/s/ Patrick E. Mockler Patrick E. Mockler	Director	March 20, 2017
By:	/s/ David A. Montgomery, Jr. David A. Montgomery, Jr.	Director	March 20, 2017
By:	/s/ Arthur Price Arthur Price	Director	March 20, 2017
By:	/s/ Fayez K. Shamieh Fayez K. Shamieh	Director	March 20, 2017
By:	/s/ C. Stewart Slack C. Stewart Slack	Director	March 20, 2017
By:	/s/ Kenneth Smith Kenneth Smith	Director	March 20, 2017
By:	/s/ Thomas Everett Stewart Jr. Thomas Everett Stewart Jr.	Director	March 20, 2017
By:	/s/ Steve White Steve White	Director	March 20, 2017
By:	/s/ Robert Yarborough Robert Yarborough	Director	March 20, 2017

EXHIBIT 21.1

SUBSIDIARIES OF BUSINESS FIRST BANCSHARES, INC.

Name	Jurisdiction of Incorporation
Business First Bank	Louisiana
Business First Insurance, LLC	Louisiana
American Gateway Insurance Agency, LLC	Louisiana

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

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

1. I have reviewed this Annual Report on Form 10-K (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 the Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 me by others within those entities, particularly during the period in which this Report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control 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 the 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; and

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 persons 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: March 20, 2017

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

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Gregory Robertson, certify that:

1. I have reviewed this Annual Report on Form 10-K (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 the Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 me by others within those entities, particularly during the period in which this Report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control 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 the 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; and

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 persons 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: March 20, 2017

/s/ Gregory Robertson
Gregory Robertson
Executive Vice President and 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 accompanying Annual Financial Report on Form 10-K of Business First Bancshares, Inc. (the "Company") for the year ended December 31, 2016, as filed with the Securities and Exchange Commission (the "Report"), we, David R. Melville, III, as President and Chief Executive Officer of the Company, and Gregory Robertson, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as added by Section 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 the Company as of and for the period covered by the Report.

Date: March 20, 2017

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

/s/ Gregory Robertson
Gregory Robertson
Chief Financial Officer