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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

Commission file number: 333-200112

BUSINESS FIRST BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

For the transition period from __________ to __________

Louisiana **(State or other jurisdiction of incorporation or organization)**	**20-5340628** **(I.R.S. Employer Identification Number)**
Business First Bank Plaza **8440 Jefferson Highway, Suite 101** **Baton Rouge, Louisiana 70809** **(Address of principal executive offices)**	**70809** **(Zip Code)**

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

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 (or for such shorter period that the registrant was required to file such reports), 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 Web site, if any, every Interactive Data 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 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	☐	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 ☒

As of May 12, 2016 the issuer has 7,037,413 shares of common stock outstanding.

BUSINESS FIRST BANCSHARES, INC.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2016	December 31, 2015
ASSETS		
Cash and Due from Banks	$ 73,349	$ 40,911
Federal Funds Sold	34,521	2,496
Securities Available for Sale, at Fair Values	206,920	210,857
Loans and Lease Receivable, Net of Allowance for Loan Losses of $7,214 at March 31, 2016 and $7,244 at December 31, 2015	782,165	765,148
Premises and Equipment, Net	9,176	9,234
Accrued Interest Receivable	2,710	2,823
Other Equity Securities	5,408	5,350
Other Real Estate Owned	2,441	2,033
Cash Value of Life Insurance	22,132	22,339
Goodwill	6,824	3,376
Core Deposit Intangible	2,486	2,555
Other Assets	8,069	8,967
Total Assets	$1,156,201	$1,076,089
LIABILITIES		
Deposits:		
Noninterest Bearing	$ 205,185	$ 222,488
Interest Bearing	773,123	681,748
Total Deposits	978,308	904,236
Securities Sold Under Agreements to Repurchase	2,865	2,435
Short Term Borrowings	3,000	3,000
Federal Home Loan Bank Borrowings	48,628	49,144
Accrued Interest Payable	609	566
Other Liabilities	7,797	4,259
Total Liabilities	1,041,207	963,640
STOCKHOLDERS' EQUITY		
Common Stock, $1 Par Value; 10,000,000 Shares Authorized; 7,037,413 and 7,035,913 Shares Issued and Outstanding at March 31, 2016 and December 31, 2015, respectively	7,037	7,036
Additional Paid-in Capital	86,033	85,913
Retained Earnings	21,693	20,289
Accumulated Other Comprehensive Income (Loss)	231	(789)
Total Stockholders' Equity	114,994	112,449
Total Liabilities and Stockholders' Equity	$1,156,201	$1,076,089

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

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

	For The Three Months Ended March 31,	
	2016	2015
Interest Income:		
Interest and Fees on Loans	$ 9,697	$ 6,633
Interest and Dividends on Securities	974	443
Interest on Federal Funds Sold and Due From Banks	41	26
Total Interest Income	10,712	7,102
Interest Expense:		
Interest on Deposits	1,107	850
Interest on Borrowings	174	86
Total Interest Expense	1,281	936
Net Interest Income	9,431	6,166
Provision for Loan Losses	670	150
Net Interest Income after Provision for Loan Losses	8,761	6,016
Other Income:		
Service Charges on Deposit Accounts	494	149
Gain (Loss) on Sales of Securities	175	—
Other Income	772	280
Total Other Income	1,441	429
Other Expenses:		
Salaries and Employee Benefits	4,696	2,938
Occupancy and Equipment Expense	1,103	657
Other Expenses	2,602	1,287
Total Other Expenses	8,401	4,882
Income Before Income Taxes	1,801	1,563
Provision for Income Taxes	397	430
Net Income	$ 1,404	$ 1,133
Earnings Per Share:		
Basic	$ 0.20	$ 0.21
Diluted	$ 0.19	$ 0.20

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

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

	For The Three Months Ended March 31,	
	2016	2015
Consolidated Net Income	$ 1,404	$ 1,133
Other Comprehensive Income:		
Unrealized Gain on Investment Securities	1,370	642
Reclassification Adjustment for Gains Included in Net Income	175	—
Income Tax Effect	(525)	(218)
Other Comprehensive Income	1,020	424
Consolidated Comprehensive Income	$ 2,424	$ 1,557

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

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at December 31, 2014	$ 5,315	$ 57,225	$16,948	$ (643)	$ 78,845
Comprehensive Income:					
Net Income	—	—	1,133	—	1,133
Other Comprehensive Income (Loss)	—	—	—	424	424
Stock Based Compensation Cost	—	121	—	—	121
Balances at March 31, 2015	$ 5,315	$ 57,346	$18,081	$ (219)	$ 80,523
Balances at December 31, 2015	$ 7,036	$ 85,913	$20,289	$ (789)	$ 112,449
Comprehensive Income:					
Net Income	—	—	1,404	—	1,404
Other Comprehensive Income (Loss)	—	—	—	1,020	1,020
Stock Based Compensation Cost	—	106	—	—	106
Exercise of Stock Warrants	1	14	—	—	15
Balances at March 31, 2016	$ 7,037	$ 86,033	$21,693	$ 231	$ 114,994

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

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

	For The Three Months Ended March 31, 2016	2015
Cash Flows From Operating Activities:		
Consolidated Net Income	$ 1,404	$ 1,133
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Provision for Loan Losses	670	150
Depreciation and Amortization	319	202
Amortization of Purchase Accounting Valuations	(568)	—
Noncash Compensation Expense	106	121
Net Amortization of Securities	459	87
Gain on Sales of Securities	(175)	—
(Gain) Loss on Sale of Other Real Estate Owned Net of Writedowns	26	(22)
Increase in Cash Value of Life Insurance	(353)	(137)
Provision (Credit) for Deferred Income Taxes	106	(30)
Changes in Assets and Liabilities:		
Decrease in Accrued Interest Receivable	113	81
Decrease in Other Assets	267	221
Increase (Decrease) in Accrued Interest Payable	43	(15)
Increase in Other Liabilities	90	338
Net Cash Provided by Operating Activities	2,507	2,129
Cash Flows From Investing Activities:		
Purchases of Securities Available for Sale	(11,992)	(15,820)
Proceeds from Maturities / Sales of Securities Available for Sale	12,035	—
Proceeds from Paydowns of Securities Available for Sale	5,155	1,451
Purchases of Other Equity Securities	(60)	(1,894)
Redemption of Other Equity Securities	2	—
Life Insurance Proceeds	560	—
Net Increase in Loans	(17,598)	(21,151)
Purchases of Premises and Equipment	(261)	(72)
Proceeds from Sales of Other Real Estate	33	93
Improvements to Other Real Estate	(102)	—
Net Increase in Federal Funds Sold	(32,025)	(7,662)
Net Cash Used in Investing Activities	(44,253)	(45,055)

(CONTINUED)

	For The Three Months Ended March 31,	
	2016	2015
Cash Flows From Financing Activities:		
Net Increase in Deposits	74,072	38,394
Net Increase in Securities Sold Under Agreements to Repurchase	430	—
Net Advances (Repayments) on Federal Home Loan Bank Borrowings	(333)	10,000
Proceeds from Exercise of Stock Warrants	15	—
Net Cash Provided by Financing Activities	74,184	48,394
Net Increase in Cash and Cash Equivalents	32,438	5,468
Cash and Cash Equivalents at Beginning of Period	40,911	26,015
Cash and Cash Equivalents at End of Period	$73,349	$31,483
Supplemental Disclosures for Cash Flow Information:		
Cash Payments for:		
Interest on Deposits	$ 1,042	$ 865
Interest on Borrowings	$ 196	$ 86
Income Tax Payments	$ —	$ 250
Supplemental Schedule for Noncash Investing and Financing Activities:		
Change in the Unrealized Gain on Securities Available for Sale	$ 1,545	$ 643
Change in Deferred Tax Effect on the Unrealized Gain on Securities Available for Sale	$ (525)	$ (219)
Transfer of Loans to Other Real Estate	$ 365	$ —

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

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

Note 1 – Basis of Presentation –

The unaudited consolidated financial statements include the accounts of 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. The Bank operates in sixteen full service banking centers, 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.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the Company's consolidated balance sheet, statement of income, comprehensive income, changes in stockholders' equity and cash flows for the periods presented, and all such adjustments are of a normal recurring nature. All material intercompany transactions are eliminated. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire year.

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

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.

Note 2 – Reclassifications –

Certain reclassifications may have been made 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 and liabilities assumed at their estimated fair values. The fair value measures 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. The purchase price calculation includes an accrual of the estimated additional cash consideration which will be required to be paid to the shareholders who have exercised their statutory rights of appraisal. The amount accrued at March 31, 2016 represents the Company's estimate of the maximum additional consideration which could be paid to the shareholders exercising their statutory appraisal rights, and is based on the actual value of the AGFC merger consideration received by the former AGFC shareholders of $219.94 per AGFC share, which was comprised of $10 paid in cash and the remainder in shares of the Company's common stock. This matter is currently in litigation, with a trial date set for late May 2016. See additional discussion at Note 8.

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 through March 31, 2016 *		9,419
Accrual for Unsettled Appraisal Rights Shares *		3,448
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

* - Unsettled Appraisal Rights Shares at March 31, 2016 was 53,094.

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.

	For The Three Months Ended March 31,	
	2016	2015
	(Dollars in thousands) (except per share data)	
Numerator:		
Net Income Available to Common Shares	$ 1,404	$ 1,133
Denominator:		
Weighted Average Common Shares Outstanding	7,037,001	5,314,925
Dilutive Effect of Stock Options and Warrants	288,357	293,600
Weighted Average Dilutive Common Shares	7,325,358	5,608,525
Basic Earnings Per Common Share From Net Income Available to Common Shares	$ 0.20	$ 0.21
Diluted Earnings Per Common Share From Net Income Available to Common Shares	$ 0.19	$ 0.20

Note 5 – Securities –

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

	March 31, 2016 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$ 11,761	$ 111	$ 2	$ 11,870
Corporate Securities	11,170	—	188	10,982
Mortgage-Backed Securities	117,264	174	399	117,039
Municipal Securities	65,436	1,073	84	66,425
Other Securities	939	—	335	604
	$206,570	$ 1,358	$ 1,008	$206,920

	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
	$212,053	$ 956	$ 2,152	$210,857

The following table is a summary of securities with gross unrealized losses and fair values at March 31, 2016 and December 31, 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.

	March 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	$ 4,053	$ 2	$ —	$ —	$ 4,053	$ 2
Corporate Securities	6,979	126	4,002	62	10,981	188
Mortgage-Backed Securities	58,996	199	21,747	200	80,743	399
Municipal Securities	7,429	42	770	42	8,199	84
Other Securities	—	—	604	335	604	335
	$ 77,457	$ 369	$27,123	$ 639	$104,580	$ 1,008

	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
	$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 March 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	$ 2,447	$ 2,461
One to Five Years	46,805	47,238
Over Five to Ten Years	56,640	56,941
Over Ten Years	100,678	100,280
	$206,570	$206,920

Note 6 – Loans and the Allowance for Loan Losses –

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

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Real estate loans:		
Construction and land	$104,083	$ 97,872
Farmland	6,891	8,897
1-4 family residential	114,697	112,954
Multi-family residential	27,136	26,058
Nonfarm nonresidential	296,367	312,207
Commercial	198,737	185,276
Consumer	41,468	29,128
Total loans held for investment	789,379	772,392
Less:		
Allowance for loan losses	(7,214)	(7,244)
Net loans	$782,165	$ 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 March 31, 2016 and December 31, 2015.

Net deferred loan origination fees were $776,000 and $740,000 at March 31, 2016 and December 31, 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 March 31, 2016 and December 31, 2015, overdrafts of $134,000 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 are not included in the consolidated balance sheets. The unpaid principal balances of mortgages and other loans serviced for others were approximately $45.7 million and $44.7 million at March 31, 2016 and December 31, 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.

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

The following table sets forth, as of March 31, 2016 and December 31, 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

	March 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	(2)	—	(98)	—	(256)	(390)	—	(746)
Recoveries	8	—	3	—	1	3	31	46
Provision	210	17	182	116	440	(12)	(283)	670
Ending Balance	$ 816	$ 47	$ 1,108	$ 217	$ 1,601	$ 3,219	$ 206	$ 7,214
Ending Balance:								
Individually evaluated for impairment	$ 504	$ —	$ 129	$ —	$ —	$ 5	$ —	$ 638
Collectively evaluated for impairment	$ 312	$ 47	$ 925	$ 173	$ 1,601	$ 3,214	$ 206	$ 6,478
Purchased Credit Impaired (1)	$ —	$ —	$ 54	$ 44	$ —	$ —	$ —	$ 98
Loans receivable:								
Ending Balance	$ 104,083	$ 6,891	$ 114,697	$ 27,136	$ 296,367	$ 198,737	$ 41,468	$ 789,379
Ending Balance:								
Individually evaluated for impairment	$ 1,480	$ —	$ 3,795	$ —	$ 4,437	$ 3,274	$ —	$ 12,986
Collectively evaluated for impairment	$ 102,517	$ 6,891	$ 110,415	$ 26,921	$ 289,995	$ 195,463	$ 41,468	$ 773,670
Purchased Credit Impaired (1)	$ 86	$ —	$ 487	$ 215	$ 1,935	$ —	$ —	$ 2,723

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

Credit Quality Indicators

	March 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real Estate Loans:					
Construction and land	$ 99,961	$ 1,524	$ 1,112	$ 1,486	$104,083
Farmland	6,891	—	—	—	6,891
1-4 family residential	106,158	2,319	2,897	3,323	114,697
Multi-family residential	25,975	—	945	216	27,136
Nonfarm nonresidential	273,256	9,067	12,112	1,932	296,367
Commercial	167,660	22,509	6,476	2,092	198,737
Consumer	41,039	399	30	—	41,468
Total	$720,940	$ 35,818	$ 23,572	$ 9,049	$789,379

	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.

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

Aged Analysis of Past Due Loans Receivable

	March 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	$ 11	$ —	$ 48	$ 59	$104,024	$104,083	$ —
Farmland	—	—	—	—	6,891	6,891	—
1-4 family residential	176	231	746	1,153	113,544	114,697	41
Multi-family residential	—	—	—	—	27,136	27,136	—
Nonfarm nonresidential	1,256	302	485	2,043	294,324	296,367	—
Commercial	—	—	—	—	198,737	198,737	—
Consumer	—	—	—	—	41,468	41,468	—
Total	$ 1,443	$ 533	$ 1,279	$3,255	$786,124	$789,379	$ 41

	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	$ —

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The following is a summary of information pertaining to impaired loans as of March 31, 2016 and December 31, 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 $77,000 and $146,000 for the three months ending March 31, 2016 and 2015, respectively.

	March 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	$ 1,312	$ 1,514	$ 504	$ 1,320
Farmland	—	—	—	—
1-4 family residential	297	310	129	299
Multi-family residential	—	—	—	—
Nonfarm nonresidential	—	—	—	—
Other Loans:				
Commercial	19	20	5	1,043
Consumer	—	—	—	—
	$ 1,628	$ 1,844	$ 638	$ 2,662
With no allowance recorded:				
Real Estate Loans:				
Construction and land	$ 168	$ 199	$ —	$ 197
Farmland	—	—	—	—
1-4 family residential	3,498	4,051	—	3,374
Multi-family residential	—	—	—	—
Nonfarm nonresidential	4,437	5,889	—	4,255
Other Loans:				
Commercial	3,255	4,345	—	1,486
Consumer	—	—	—	—
	$ 11,358	$14,484	$ —	$ 9,312
Total Impaired Loans:				
Real Estate Loans:				
Construction and land	$ 1,480	$ 1,713	$ 504	$ 1,517
Farmland	—	—	—	—
1-4 family residential	3,795	4,361	129	3,673
Multi-family residential	—	—	—	—
Nonfarm nonresidential	4,437	5,889	—	4,255
Other Loans:				
Commercial	3,274	4,365	5	2,529
Consumer	—	—	—	—
	$ 12,986	$16,328	$ 638	$ 11,974

	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	—	—	—	—
	$ 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
	$ 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
	$ 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 March 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	(498)
Charge-offs	(263)
Transfer to Other Real Estate	(150)
Carrying amount - March 31, 2016	$ 2,723

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 March 31, 2016 and December 31, 2015, the AGFC performing loans totaled $85.7 million and $93.1 million, respectively, with a related purchase discount of $3.0 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 March 31, 2016 and December 31, 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.

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The following tables present informative data regarding loan modifications occurring as of March 31, 2016 and December 31, 2015. The Bank had $54,000 in troubled debt restructurings that had subsequently defaulted during the year ended December 31, 2015, and none that subsequently defaulted during the three months ended March 31, 2016.

Modifications as of March 31, 2016:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in thousands)	
Troubled Debt Restructuring			
Real Estate Loans:			
1-4 family residential	5	$ 1,568	$ 998
Nonfarm nonresidential	3	5,143	3,563
Other Loans:			
Commercial	4	3,294	2,740
Total Loans	12	$ 10,005	$ 7,301

Modifications as of December 31, 2015:

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

Note 7 – 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 March 31, 2016 and December 31, 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)		
March 31, 2016				
Available for Sale:				
U.S. Government Agency Securities	$ 11,870	$ —	$ 11,870	$ —
Corporate Securities	10,982	—	10,982	—
Mortgage-Backed Securities	117,039	—	117,039	—
Municipal Securities	66,425	—	66,425	—
Other Securities	604	—	604	—
Total	$206,920	$ —	$206,920	$ —
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)		
March 31, 2016				
Assets:				
Impaired Loans	$ 14,973	$ —	$ 14,973	$ —
Repossessed Assets	2,441	—	2,441	—
Total	$ 17,414	$ —	$ 17,414	$ —
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 March 31, 2016 and December 31, 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)		
March 31, 2016					
Financial Assets:					
Cash and Short-Term Investments	$ 107,870	$ 107,870	$ 107,870	$ —	$ —
Securities	206,920	206,920	—	206,920	—
Loans - Net	782,165	779,444	—	—	779,444
Cash Value of BOLI	22,132	22,132	—	22,132	—
Other Equity Securities	5,408	5,408	—	—	5,408
	$1,124,495	$1,121,774	$ 107,870	$229,052	$ 784,852
Financial Liabilities:					
Deposits	$ 978,308	$ 971,077	$ —	$ —	$ 971,077
Borrowings	54,493	54,476	—	54,476	—
	$1,032,801	$1,025,553	$ —	$ 54,476	$ 971,077

	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, 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
	$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	—
	$ 958,815	$ 952,332	$ —	$ 54,561	$ 897,771

Note 8 – Litigation –

In conjunction with the AGFC merger, certain shareholders exercised their statutory rights of appraisal. As of March 31, 2016, there were 53,094 unsettled AGFC shares, with the fair value amount per AGFC share in dispute. This litigation is ongoing, with a trial date set for late May 2016. In June 2015, the Company made a cash payment of $155 per AGFC share to the unsettled former AGFC shareholders, representing the amount the Company estimated to be the fair value of the former AGFC shareholders' AGFC shares. A group of former AGFC shareholders are disputing the Company's determination of fair value, and have requested a cash merger consideration payment of $263 per AGFC share. As calculated in accordance with the merger agreement, the AGFC merger consideration to the former AGFC shareholders was valued at $219.94 per AGFC share, with $10 paid in cash and the remainder in shares of the Company's common stock. The AGFC purchase price reflected in these financial statements includes the Company's estimate of the maximum additional cash consideration which could be payable to the unsettled former AGFC shareholders upon settlement of the ongoing litigation. This estimate is based upon the $219.94 value per AGFC share as calculated in accordance with the merger agreement, less amounts already paid to said shareholders and totals $3.45 million, and is reflected in Other Liabilities as of March 31, 2016. The amount of the ultimate settlement is unknown as of the date of these financial statements. Any legal costs associated with defense of this litigation are being expensed as incurred.

Note 9 – Recently Issued 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.

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

FORWARD LOOKING STATEMENTS

NOTE: When we refer in this Form 10-Q to "we," "our," "us," the "Company" and "Business First," we are referring to Business First Bancshares, Inc., unless the context indicates otherwise.

This Quarterly Report on Form 10-Q, or the "Report," contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and 21E of the Securities Exchange Act of 1934. 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 recent declines 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;
- 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 or other acts of God and other matters beyond our control;
- 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.

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

The following discussion and analysis is to focus on significant changes in the financial condition of Business First Bancshares, Inc. and its subsidiaries (Business First), from December 31, 2015 to March 31, 2016 and its results of operations for the three months ended March 31, 2016. This discussion and analysis is intended to highlight and supplement information presented elsewhere in this quarterly report on Form 10-Q, particularly the consolidated financial statements and related notes appearing in Item 1. 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 seven markets across Louisiana. As of March 31, 2016, we had total assets of $1.2 billion, total loans of $789.4 million, total deposits of $978.3 million, and total stockholders' equity of $115.0 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 period ended March 31, 2016 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 Unaudited 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 quarter ended March 31, 2016 include:

- **Total assets** of $1.2 billion, a $80.1 million or 7.4% increase from December 31, 2015.
- **Total loans** of $789.4 million, a $17.0 million or 2.2% increase from December 31, 2015.
- **Total deposits** of $978.3 million, a $74.1 million or 8.2% increase from December 31, 2015.
- **Net income for the three months** ended March 31, 2016 of $1.4 million, a $271,000 or 23.9% increase from the quarter ended March 31, 2015.
- **Net interest income** of $9.4 million for the three months ended March 31, 2016, a year-over-year increase of $3.3 million or 53.0%, from the three month period ended March 31, 2015.

- **An allowance for loan and lease losses** of 0.91% of total loans and a ratio of non-performing loans to total loans of 1.15% as of March 31, 2016.
- **Return on average assets** of 0.51% over the first three months of 2016.
- **Return on average equity** of 4.93% over the first three months of 2016.
- **Capital ratios** for Tier 1 Leverage, Common Equity Tier 1, Tier 1 Risk-based and Total Risk-based Capital of 9.65%, 10.81%, 10.81% and 11.55%, respectively as of March 31, 2016.
- **Book value per share** of $16.34 as of March 31, 2016, an increase of 2.3% from $15.98 at December 31, 2015.

Results of Operations for the Three Months Ended March 31, 2016 and 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 three months ended March 31, 2016, net interest income totaled $9.4 million, and net interest margin and net interest spread were 3.69% and 3.53%, respectively. For the three months ended March 31, 2015 net interest income totaled $6.2 million and net interest margin and net interest spread were 3.59% and 3.43%, 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 increased thirty-four basis points from 4.63% as of March 31, 2015 to 4.97% as of March 31, 2016. In addition, we experienced an overall decrease in cost of funds of five basis points. 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 offset by the accretion of the purchase discount related to the AGFC loan portfolio which positively impacted average loan yields for the three months ended March 31, 2016. 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 tables present, for the periods indicated, an analysis of net interest income by each major category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding and the interest earned or paid on such amounts. The tables also set forth the average rate earned on interest-earning assets, the average rate paid on interest-bearing liabilities, and the net interest margin on average total interest-earning assets for the same periods. Interest earned on loans that are classified as nonaccrual is not recognized in income; however the balances are reflected in average outstanding balances for the period. For the three months ended March 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.

	For the Three Months Ended March 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) (Unaudited)					
Assets						
Interest-earning assets:						
Total loans	$ 780,265	$ 9,697	4.97%	$ 573,641	$6,633	4.63%
Securities available for sale	215,290	974	1.81%	85,816	443	2.07%
Interest-bearing deposits in other banks	27,901	41	0.59%	27,557	26	0.38%
Total interest-earning assets	1,023,456	10,712	4.19%	687,014	7,102	4.14%
Allowance for loan losses	(7,332)			(6,730)		
Noninterest-earning assets	85,611			43,430		
Total assets	$1,101,735	$10,712		$ 723,714	$7,102	
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 713,074	$ 1,107	0.62%	$ 483,832	$ 850	0.70%
Advances from FHLB	58,759	147	1.00%	42,542	85	0.80%
Other borrowings	6,320	27	1.71%	420	1	0.95%
Total interest-bearing liabilities	778,153	1,281	0.66%	526,794	936	0.71%
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	204,612			115,883		
Other liabilities	5,123			3,620		
Total noninterest-bearing liabilities	209,735			119,503		
Stockholders' equity	113,847			77,417		
Total liabilities and stockholders' equity	$1,101,735			$ 723,714		
Net interest rate spread(1)			3.53%			3.43%
Net interest income		$ 9,431			$6,166	
Net interest margin(2)			3.69%			3.59%

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

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

	For the Three Months Ended March 31, 2016 compared to the Three Months ended March 31, 2015		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands) (Unaudited)		
Interest-earning assets:			
Total loans	$ 2,568	$ 496	$ 3,064
Securities available for sale	588	(57)	531
Interest-earning deposits in other banks	1	14	15
Total increase (decrease) in interest income	$ 3,157	$ 453	$ 3,610
Interest-bearing liabilities:			
Interest-bearing deposits	$ 356	$ (99)	$ 257
Advances from FHLB	41	21	62
Other borrowings	25	1	26
Total increase (decrease) in interest expense	422	(77)	345
Increase (decrease) in net interest income	$ 2,735	$ 530	$ 3,265

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 $670,000 for the three months ended March 31, 2016 and $150,000 for the same period in 2015. The increased provision during the first quarter 2016 compared to the prior year same period was to increase our general reserves related to our exposure to the energy sector.

Noninterest Income

Our primary sources of recurring noninterest income are service charges on deposit accounts, gains on the sale of securities, and income from bank-owned life insurance.

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

	For the Three Months Ended March 31, 2016	For the Three Months Ended March 31, 2015	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Noninterest income:			
Service charges on deposit accounts	$ 494	$ 149	$ 345
Debit card fee income	153	23	130
ATM fees	45	—	45
Gain on sales of other real estate owned	32	22	10
Bank-owned life insurance income	353	138	215
Gain on sales of investment securities	175	—	175
Brokerage commissions	71	—	71
Other	118	97	21
Total noninterest income	$ 1,441	$ 429	$ 1,012

Noninterest income for the three months ended March 31, 2016 increased $1.0 million or 235.9% to $1.4 million compared to noninterest income of $429,000 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 $494,000 for the three months ended March 31, 2016, an increase of $345,000 over the same period in 2015. The increases were primarily due to an increase in the number of deposit accounts as a result of the 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 $153,000 and $23,000 for the three months ended March 31, 2016 and 2015, respectively, representing an increase of $130,000 or 565.2%. The increase was primarily due to increased customer volume as a result of the merger with AGFC.

ATM fees. We earn fee income as a result of our customers ATM activity as well as from noncustomer activity at our ATM machines, and these fees represent a significant and predictable component of our noninterest income. ATM fees were $45,000 for the three months ended March 31, 2016. These fees were a new revenue source beginning in the second quarter 2015 as a result of the AGFC merger. Prior to the merger, 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 $353,000 for the three months ended March 31, 2016 as compared to $138,000 for the same time period in 2015, an increase of $215,000. The increase was primarily a due to receipt of a death benefit related to a former AGFC employee.

Gain on Sale of Investment Securities. We had $175,000 in gains on the sale of investment securities for the three months ended March 31, 2016 and no gains or losses on sales for the same period in 2015.

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 $71,000 for the three months ended March 31, 2016. There were no fees earned during the same period in 2015, as these services were in the start-up phase at that time.

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 other real estate rental income. Other income increased $21,000 or 21.6% for the three months ended March 31, 2016, compared to the same period in 2015. The increases were primarily due to the merger with AGFC.

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 Three Months Ended March 31,		Increase (Decrease)
	2016	2015	
	(Dollars in thousands) (Unaudited)		
Salaries and employee benefits	$ 4,696	$ 2,938	$ 1,758
Non-staff expenses:			
Occupancy of bank premises	614	363	251
Depreciation and amortization	388	202	186
Data processing	375	178	197
FDIC assessment fees	164	117	47
Legal and other professional fees	365	246	119
Advertising and promotions	284	104	180
Utilities and communications	279	74	205
Ad valorem shares tax	180	135	45
Other real estate owned expenses and write-downs	91	—	91
Other	965	525	440
Total noninterest expense	$ 8,401	$ 4,882	$ 3,519

Noninterest expense for the three months ended March 31, 2016 increased $3.5 million or 72.1% to $8.4 million compared to noninterest expense of $4.9 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 $4.7 million for the three months ended March 31, 2016, an increase of $1.8 million or 59.8% compared to the same period in 2015. The increase was primarily attributable to new salaries and benefits for employees acquired in the 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 March 31, 2016, we had 200 full-time equivalent employees. Salaries and employee benefits included stock-based compensation expense of $106,000 and $121,000 for the three months ended March 31, 2016 and 2015, respectively.

Occupancy of bank premises. Expense associated with occupancy of premises was $614,000 for the three months ended March 31, 2016 and $363,000 for the same period in 2015. The increase of $251,000 can primarily be attributed to the addition of 10 banking centers in conjunction with the merger with AGFC.

Depreciation and amortization. Depreciation and amortization costs were $388,000 and $202,000 for the three months ended March 31, 2016 and 2015, respectively. This category includes leasehold, furniture, fixtures and equipment depreciation totaling $319,000 and $202,000 for the three months ended March 31, 2016 and 2015, respectively. The amortization of intangible assets was $69,000 for the three months March 31, 2016. There was no amortization of intangible assets in the same period for 2015. The increase in depreciation and amortization costs are directly attributable to the assets acquired in the AGFC merger.

Data processing. Data processing expenses were $375,000 for the three months ended March 31, 2016 and $178,000 for the same period in 2015. The increase of $197,000 for the three months ended March 31, 2016 was attributable to the merger with AGFC.

FDIC assessment fees. FDIC assessment fees were $164,000 and $117,000 for the three months ended March 31, 2016 and 2015, respectively. The increase of $47,000 or 40.2% for the three months ended March 31, 2016 is primarily due to the merger with AGFC.

Legal and other professional fees. Other professional fees include audit, loan review, compliance, and other consultants. Legal and other professional fees were $365,000 and $246,000 for the three months ended March 31, 2016 and 2015, respectively. The increase of $119,000 for the three months ended March, 31, 2016 can be attributed to the ongoing reporting obligations in connection with the registration of our common stock, as well as legal costs incurred in our defense of the litigation related to the dissenting former AGFC shareholders who are exercising their statutory rights of appraisal.

Ad valorem shares tax. Ad valorem shares tax expense was $180,000 and $135,000 for the three months ended March 31, 2016 and 2015, respectively. The increase of $45,000 or 33.3% for the three months ended March 31, 2016 is primarily as a result of the higher assessment base after the merger with AGFC.

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 increased $440,000 for the three months ended March 31, 2016 compared to the same period in 2015. The increase was due primarily to the merger with AGFC.

Income Tax Expense

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

For the three months ended March 31, 2016, income tax expense totaled $397,000, a decrease of $33,000 or 7.7% compared to $430,000 for the same period in 2015. For the periods presented, the decrease in income tax expense can be attributed primarily to higher levels of tax-exempt income during the three months ended March 31, 2016 compared to the prior year period as a result of municipal securities acquired in the AGFC merger and the receipt of death benefit proceeds from a bank-owned life insurance policy. Our effective tax rate for the three months ended March 31, 2016 and 2015 were 22.0% and 27.5%, respectively. Our effective tax rate for both periods were 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 $80.1 million or 7.4% from $1.1 billion as of December 31, 2015 to $1.2 billion as of March 31, 2016. Our asset growth was primarily driven by 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 March 31, 2016, total loans were $789.4 million, an increase of $17.0 million compared to $772.4 million as of December 31, 2015. The increase was primarily due our continued loan penetration in our primary market area. There were no loans held for sale as of March 31, 2016.

Total loans as a percentage of deposits were 80.7% and 85.4% as of March 31, 2016 and December 31, 2015 respectively. Total loans as a percentage of assets were 68.3% and 71.8% as of March 31, 2016 and December 31, 2015, respectively.

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

	As of March 31, 2016		As of December 31, 2015	
	Amount	Percent	Amount	Percent
	(Dollars in thousands) (Unaudited)		(Dollars in thousands)	
Commercial	$198,737	25.2%	$ 185,276	24.0%
Real estate:				
Construction and land	104,083	13.2%	97,872	12.7%
Farmland	6,891	0.9%	8,897	1.1%
1-4 family residential	114,697	14.5%	112,954	14.6%
Multi-family residential	27,136	3.4%	26,058	3.4%
Nonfarm nonresidential	296,367	37.5%	312,207	40.4%
Consumer	41,468	5.3%	29,128	3.8%
Total loans held for investment	$789,379	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 $13.5 million or 7.3% to $198.7 million as of March 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 increased $6.2 million or 6.3% to $104.1 million as of March 31, 2016 from $97.9 million as of December 31, 2015. The increase was attributable to the opportunities to fund small residential land development projects with proven developers, who are existing customers of the Bank and have demonstrated a successful track record for many years.

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

1-4 family residential loans increased $1.7 million or 1.5% to $114.7 million as of March 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 $15.8 million or 5.1% to $296.4 million as of March 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 March 31, 2016			
	One Year or Less	One Through Five Years	After Five Years	Total
	(Dollars in thousands)(Unaudited)			
Commercial	$ 63,734	$ 91,671	$ 43,332	$198,737
Real estate:				
Construction and land	54,272	42,776	7,035	104,083
Farmland	1,256	4,425	1,210	6,891
1-4 family residential	11,901	52,009	50,787	114,697
Multi-family residential	4,443	9,745	12,948	27,136
Nonfarm nonresidential	25,987	118,619	151,761	296,367
Consumer	15,876	22,995	2,597	41,468
Total loans	$177,469	$342,240	$269,670	$789,379
Amounts with fixed rates	$ 78,050	$215,800	$169,327	$463,177
Amounts with floating rates	$ 99,419	$126,440	$100,343	$326,202

	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	$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 $11.5 million and $10.0 million in nonperforming assets as of March 31, 2016 and December 31, 2015, respectively. We had $9.1 million in nonperforming loans as of March 31, 2016 compared to $8.0 million as of December 31, 2015. The increase in nonperforming assets and nonperforming loans from December 31, 2015 to March 31, 2016 is related to our exposure to the energy sector.

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

	As of March 31, 2016 (Dollars in thousands) (Unaudited)	As of December 31, 2015 (Dollars in thousands)
Nonaccrual loans	$ 9,049	$ 7,957
Accruing loans 90 or more days past due	41	—
Total nonperforming loans	9,090	7,957
Nonaccrual debt securities	—	—
Other real estate owned:		
Commercial real estate, construction, land and land development	1,747	1,373
Residential real estate	694	660
Total other real estate owned	2,441	2,033
Total nonperforming assets	$ 11,531	$ 9,990
Restructured loans-nonaccrual	$ 2,335	$ 811
Restructured loans-accruing	$ 4,966	$ 5,054
Ratio of nonperforming loans to total loans	1.15%	1.03%
Ratio of nonperforming assets to total assets	1.00%	0.93%

	As of March 31, 2016 (Dollars in thousands) (Unaudited)	As of December 31, 2015 (Dollars in thousands)
Nonaccrual loans by category:		
Real estate:		
Construction and land	$ 1,486	$ 1,738
1-4 family residential	3,323	3,205
Multi-family residential	216	229
Nonfarm nonresidential	1,932	1,806
Commercial	2,092	979
Consumer	—	—
Total	$ 9,049	$ 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 and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that we generally expect to experience significant loss within the short-term. 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 loans as of the dates indicated.

	As of March 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands) (Unaudited)				
Real estate:					
Construction and land	$ 99,961	$ 1,524	$ 1,112	$ 1,486	$104,083
Farmland	6,891	—	—	—	6,891
1-4 family residential	106,158	2,319	2,897	3,323	114,697
Multi-family residential	25,975	—	945	216	27,136
Nonfarm nonresidential	273,256	9,067	12,112	1,932	296,367
Commercial	167,660	22,509	6,476	2,092	198,737
Consumer	41,039	399	30	—	41,468
Total	$720,940	$ 35,818	$ 23,572	$ 9,049	$789,379

	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 of 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, experience and ability of the developer and loan to value ratio.

As of March 31, 2016, the allowance for loan losses totaled $7.2 million or 0.91% of total loans. As of December 31, 2015, the allowance for loan losses totaled $7.2 million or 0.94% of total loans.

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

	For the Three months Ended March 31, 2016 (Dollars in thousands) (Unaudited)	As of December 31, 2015 (Dollars in thousands)
Average loans outstanding[1]	$ 780,265	$ 700,952
Gross loans outstanding at end of period[1]	$ 789,379	$ 772,392
Allowance for loan losses at beginning of period	7,244	6,632
Provision for loan losses	670	1,200
Charge-offs:		
Real estate:		
Construction, land and farmland	2	102
Residential	98	144
Nonfarm non-residential	256	44
Commercial	390	695
Consumer	—	—
Total charge-offs	746	985
Recoveries:		
Real estate:		
Construction, land and farmland	8	34
Residential	3	94
Nonfarm non-residential	1	13
Commercial	3	164
Consumer	31	92
Total recoveries	46	397
Net charge-offs	700	588
Allowance for loan losses at end of period	$ 7,214	$ 7,244
Ratio of allowance to end of period loans	0.91%	0.94%
Ratio of net charge-offs to average loans	0.09%	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 March 31, 2016		As of December 31, 2015	
	Amount	Percent to Total	Amount	Percent to Total
	(Dollars in thousands) (Unaudited)		(Dollars in thousands)	
Real estate:				
Construction and land	$ 816	11.3%	$ 600	8.3%
Farmland	47	0.6%	30	0.4%
1-4 family residential	1,108	15.4%	1,021	14.1%
Multi-family residential	217	3.0%	101	1.4%
Nonfarm nonresidential	1,601	22.2%	1,416	19.6%
Total real estate	3,789	52.5%	3,168	43.8%
Commercial	3,219	44.6%	3,618	49.9%
Consumer	206	2.9%	458	6.3%
Total allowance for loan losses	$7,214	100%	$ 7,244	100%

Securities

We use our securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, meet collateral requirements and meet regulatory capital requirements. As of March 31, 2016, the carrying amount of investment securities totaled $206.9 million, a decrease of $4.0 million or 1.9% compared to $210.9 million as of December 31, 2015. Securities represented 17.9%, and 19.6% of total assets as of March 31, 2016 and December 31, 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 March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands) (Unaudited)			
U.S. government agencies	$ 11,761	$ 111	$ 2	$ 11,870
Corporate bonds	11,170	—	188	10,982
Municipal securities	65,436	1,073	84	66,425
Mortgage-backed securities	117,264	174	399	117,039
Other securities	939	—	335	604
Total	$206,570	$ 1,358	$ 1,008	$206,920

	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 March 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 March 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) (Unaudited)									
U.S. government agencies	$ —	— %	$ 7,061	1.33%	$ 4,809	2.53%	$ —	— %	$ 11,870	1.82%
Corporate bonds	—	— %	6,533	1.98%	4,449	1.72%	—	— %	10,982	1.87%
Municipal securities	2,460	1.66%	28,774	1.79%	19,132	2.20%	16,059	2.35%	66,425	2.04%
Mortgage-backed securities	1	(4.19)%	4,870	1.71%	28,551	1.53%	83,617	1.76%	117,039	1.70%
Other securities	—	— %	—	— %	—	— %	604	1.98%	604	1.98%
Total	$2,461	1.66%	$47,238	1.74%	$ 56,941	1.85%	$100,280	1.86%	$206,920	1.83%

	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 5.15 years with an estimated effective duration of 49.91 months as of March 31, 2016.

As of March 31, 2016 and December 31, 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 March 31, 2016 were $978.3 million, an increase of $74.1 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 greater than $100,000, along with continued deposit penetration in our primary market area.

Noninterest-bearing deposits as of March 31, 2016 were $205.2 million compared to $222.5 million as of December 31, 2015, a decrease of $17.3 million or 7.8%.

Average deposits for the three months ended March 31, 2016 were $917.7 million, an increase of $95.9 million or 11.7% 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 0.62% for the three months ended March 31, 2016. The increase in average rates during the three months ended March 31, 2016 was driven primarily by a strategic increase in the pricing of certificates of deposit greater than $100,000 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 0.48% for the three months ended March 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 Three months Ended March 31, 2016		For the Year Ended December 31, 2015	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands) (Unaudited)		(Dollars in thousands)	
Interest-bearing demand accounts	$ 35,618	0.17%	$ 28,491	0.25%
NOW accounts	123,644	0.22%	103,157	0.20%
Limited access money market accounts and savings	250,533	0.40%	218,991	0.41%
Certificates and other time deposits > $100k	218,849	1.03%	195,086	0.88%
Certificates and other time deposits < $100k	84,430	0.99%	87,030	1.13%
Total interest-bearing deposits	713,074	0.62%	632,755	0.61%
Noninterest-bearing demand accounts	204,612	— %	188,995	— %
Total deposits	$ 917,686	0.48%	$ 821,750	0.47%

The ratio of average noninterest-bearing deposits to average total deposits for the three months ended March 31, 2016 and the year ended December 31, 2015 was 22.3% and 23.0%, respectively.

The following table sets forth the amount of certificates of deposit that are $100,000 or greater by time remaining until maturity:

	As of March 31, 2016 (Unaudited)	As of December 31, 2015
	(Dollars in thousands)	
1 year or less	$ 172,189	$ 134,384
More than 1 year but less than 3 years	63,227	39,214
3 years or more but less than 5 years	12,447	6,530
5 years or more	250	4,008
Total	$ 248,113	$ 184,136

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 are 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 March 31, 2016 and December 31, 2015, total borrowing capacity of $337.3 million and $317.9 million, respectively, was available under this arrangement and $48.6 million and $49.1 million, respectively, was outstanding with a weighted average stated interest rate of 2.65% as of March 31, 2016 and 2.66% as of December 31, 2015. Our current FHLB advances mature within three 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 and 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)
March 31, 2016	
Amount outstanding at quarter-end	$ 48,628
Weighted average stated interest rate at quarter-end	2.65%
Maximum month-end balance during the quarter	$ 80,973
Average balance outstanding during the quarter	$ 58,759
Weighted average interest rate during the quarter	1.01%
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 allows us to borrow on a revolving basis up to $3.0 million. This line of credit, established on September 3, 2015, is unsecured, but we have agreed that we will not pledge any of the capital stock of our wholly-owned subsidiary, Business First Bank, to secure any other obligation. As of March 31, 2016 and December 31, 2015, there was no borrowing capacity available under the line, and $3.0 million was outstanding at a variable rate of 3-month LIBOR plus 2.5%. The rate was 3.12% and 2.93% at March 31, 2016 and December 31, 2015, respectively, and adjusts quarterly. The FTN line matures in one year and was established for the sole purpose of repurchasing shares of our common stock from certain of our shareholders and for general corporate purposes.

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

	FTN Advances (Dollars in Thousands)
March 31, 2016	
Amount outstanding at quarter-end	$ 3,000
Weighted average stated interest rate at quarter-end	3.12%
Maximum month-end balance during the quarter	$ 3,000
Average balance outstanding during the quarter	$ 3,000
Weighted average interest rate during the quarter	3.00%
December 31, 2015	
Amount outstanding at year-end	$ 3,000
Weighted average stated 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%

Correspondent Bank Federal Funds Purchased Relationships

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

	(Dollars in Thousands)
The Independent Banker's Bank TIB	$ 25,000
First Tennessee National Bank	$ 17,000
First National Bankers Bank	$ 26,700
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)
March 31, 2016	
Amount outstanding at quarter-end	$ —
Weighted average interest rate at quarter-end	— %
Maximum month-end balance during the quarter	$ —
Average balance outstanding during the quarter	$ 602
Weighted average interest rate during the quarter	1.59%
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 three months ended March 31, 2016 and the year ended December 31, 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 March 31, 2016 and December 31, 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 $106.2 million as of March 31, 2016 and $83.7 million as of December 31, 2015. There were no funds under these lines of credit outstanding as of March 31, 2016 and December 31, 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 for the three months ended March 31, 2016 and $999.5 million for the year ended December 31, 2015.

	For the Three Months Ended March 31, 2016 (Unaudited)	For the Years Ended December 31, 2015
Sources of Funds:		
Deposits:		
Noninterest-bearing	18.6%	18.9%
Interest-bearing	64.7%	63.3%
Advances from FHLB	5.3%	5.5%
Other borrowings	0.6%	0.3%
Other liabilities	0.5%	1.4%
Stockholders' equity	10.3%	10.6%
Total	100%	100%
Uses of Funds:		
Loans	70.2%	69.4%
Securities available for sale	19.5%	17.9%
Interest-bearing deposits in other banks	2.5%	4.8%
Other noninterest-earning assets	7.8%	7.9%
Total	100%	100%
Average noninterest-bearing deposits to average deposits	22.3%	23.0%
Average loans to average deposits	85.0%	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 36.0% for the three months ended March 31, 2016 compared to the same period in 2015. We predominantly invest excess deposits in overnight deposits with the Federal Reserve, securities, interest-bearing deposits at other banks or other short-term liquid investments until needed to fund loan growth. Our securities portfolio had a weighted average life of 5.15 years and an effective duration of 49.91 months as of March 31, 2016. As of December 31, 2015, our securities portfolio has a weighted average life of 5.31 years and an effective duration of 51.22 months.

As of March 31, 2016, we had outstanding $173.8 million in commitments to extend credit and $9.2 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 March 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 March 31, 2016, we had cash and cash equivalents of $73.3 million compared to $40.9 million as of December 31, 2015.

Capital Resources

Total stockholders' equity increased to $115.0 million as of March 31, 2016, compared to $112.4 million as of December 31, 2015, an increase of $2.5 million or 2.3%. This increase was primarily the result of $1.4 million in net income. On April 15, 2016, we declared a dividend based upon our financial performance for the three months ended March 31, 2016 in the amount of $0.05 per share to the common shareholders of record as of April 29, 2016. The dividend is to be paid on May 16, 2016 or as soon as practicable thereafter.

Capital management consists of providing equity to support current and future operations. Banking regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. We are subject to regulatory capital requirements at the bank holding company and bank levels. As of March 31, 2016 and December 31, 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 March 31, 2016		As of December 31, 2015	
	Amount	Ratio	Amount	Ratio
	(Unaudited)			
	(Dollars in thousands)			
Business First Bancshares, Inc.				
Total capital (to risk weighted assets)	$112,591	11.55%	$ 115,012	12.06%
Tier 1 capital (to risk weighted assets)	105,377	10.81%	107,768	11.30%
Common Equity Tier 1 capital (to risk weighted assets)	105,377	10.81%	107,768	11.30%
Tier 1 capital (to average assets)	105,377	9.65%	107,768	10.08%
Business First Bank				
Total capital (to risk weighted assets)	$113,458	11.66%	$ 115,828	12.17%
Tier 1 capital (to risk weighted assets)	106,244	10.92%	108,584	11.41%
Common Equity Tier 1 capital (to risk weighted assets)	106,244	10.92%	108,584	11.41%
Tier 1 capital (to average assets)	106,244	9.75%	108,584	10.17%

Contractual Obligations

The following table summarizes contractual obligations and other commitments to make future payments as of March 31, 2016 and December 31, 2015 (other than deposit obligations), which consist of future cash payments associated with our contractual obligations pursuant to our FHLB advances, FTN revolving line of credit, and non-cancelable future operating leases. Payments related to leases are based on actual payments specified in underlying contracts. Advances from the Federal Home Loan Bank totaled approximately $48.6 million and $49.1 million as of March 31, 2016 and December 31, 2015, respectively. As of March 31, 2016 and December 31, 2015, the FHLB advances were collateralized by a blanket floating lien on certain securities and loans, had a weighted average stated rate of 2.65% and 2.66%, respectively, and maturities ranging from 2017 through 2018. The advances under the FTN revolving line of credit totaled $3.0 million at both March 31, 2016 and December 31, 2015. These advances were unsecured bearing interest at a variable rate of 3.12% and 2.93% at March 31, 2016 and December 31, 2015, respectively, and maturing in 2016.

	As of March 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
	(Unaudited) (Dollars in thousands)				
Non-cancelable future operating leases	$ 1,302	$ 2,172	$ 1,521	$ 4,970	$ 9,965
Time deposits	229,808	89,056	16,078	250	335,192
Advances from FHLB	2,091	46,537	—	—	48,628
Advances from FTN	3,000	—	—	—	3,000
Securities sold under agreements to repurchase	2,865	—	—	—	2,865
Standby and commercial letters of credit	8,767	422	—	—	9,189
Commitments to extend credit	82,949	56,991	11,522	22,325	173,787
Total	$ 330,782	$ 195,178	$ 29,121	$27,545	$582,626

	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 March 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
	(Unaudited) (Dollars in thousands)				
Standby and commercial letters of credit	$ 8,767	$ 422	$ —	$ —	$ 9,189
Commitments to extend credit	82,949	56,991	11,522	22,325	173,787
Total	$ 91,716	$ 57,413	$ 11,522	$22,325	$182,976

	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 future 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 March 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	8.50%	8.50%	6.90%	(11.70%)
+200	6.00%	8.83%	4.80%	(6.18%)
+100	2.60%	8.58%	1.40%	(2.87%)
Base	0.00%	0.00%	0.00%	0.00%
-100	(2.00%)	3.16%	(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 2016, we updated the model loan prepayment assumptions to more accurately reflect historical activity, which combined with a larger cash position at March 31, 2016, caused a significant positive change in the fair value of equity rate shock scenarios at March 31, 2016 compared to December 31, 2015. 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 March 31,		As of December 31,		
	2016	2015	2015	2014	2013
	(Unaudited)				
	(Dollars in thousands, except per share data)				
Tangible Common Equity					
Total stockholders' equity	$ 114,994	$ 80,523	$ 112,449	$ 78,845	$ 71,923
Adjustments:					
Goodwill	(6,824)	—	(3,376)	—	—
Core deposit and other intangibles	(2,486)	—	(2,555)	—	—
Total tangible common equity	$ 105,684	$ 80,523	$ 106,518	$ 78,845	$ 71,923
Common shares outstanding[(1)]	7,037,413	5,314,925	7,035,913	5,314,925	5,314,925
Book value per common share	$ 16.34	$ 15.15	$ 15.98	$ 14.83	$ 13.53
Tangible book value per common share	$ 15.02	$ 15.15	$ 15.14	$ 14.83	$ 13.53

(1) Excludes the dilutive effect, if any, of 950,880, 952,120, 953,280, 952,120 and 919,350 shares of common stock issuable upon exercise of outstanding stock options as of March 31, 2016, March 31, 2015, 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 March 31, 2016	As of December 31,		
		2015	2014	2013
	(Unaudited)			
	(Dollars in thousands, except per share data)			
Tangible Common Equity				
Total stockholders' equity	$ 114,994	$ 112,449	$ 78,845	$ 71,923
Adjustments:				
Goodwill	(6,824)	(3,376)	—	—
Core deposit and other intangibles	(2,486)	(2,555)	—	—
Total tangible common equity	$ 105,684	$ 106,518	$ 78,845	$ 71,923
Tangible Assets				
Total assets	$ 1,156,201	$1,076,089	$684,502	$684,180
Adjustments:				
Goodwill	(6,824)	(3,376)	—	—
Core deposit and other intangibles	(2,486)	(2,555)	—	—
Total tangible assets	$ 1,146,891	$1,070,158	$684,502	$684,180
Tangible Common Equity to Tangible Assets	9.2%	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 eight quarter look back period beginning four quarters in arrears 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 historic 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 March 31, 2016 and December 31, 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 3. Quantitative and Qualitative Disclosures about Market Risk

Risk identification and management are essential elements for the successful management of our business. In the normal course of business, we are subject to various types of risk, including interest rate, credit, and liquidity risk. We control and monitor these risks with policies, procedures, and various levels of managerial and board oversight. Our objective is to optimize profitability while managing and controlling risk within board approved policy limits. Interest rate risk is the sensitivity of net interest income and the market value of financial instruments to the magnitude, direction, and frequency of changes in interest rates. Interest rate risk results from various repricing frequencies and the maturity structure of assets and liabilities. We use our asset liability management policy to control and manage interest rate risk.

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

Credit risk represents the possibility that a customer may not perform in accordance with contractual terms. Credit risk results from extending credit to customers, purchasing securities, and entering into certain off-balance sheet loan funding commitments. Our primary credit risk is directly related to our loan portfolio. We use our credit policy and disciplined approach to evaluate the adequacy of our allowance for loan losses to control and manage credit risk. Our investment policy limits the degree of the amount of credit risk that we may assume in our investment portfolio. Our principal financial market risks are liquidity risks and exposures to interest rate movements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a – 15(e) and 15 d – 15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Report to provide reasonable assurance that the information we are required to disclose in reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms specified by the SEC. We note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions.

Changes in Internal Controls over Financial Reporting

There were no significant changes in our internal control over financial reporting or in other factors that could significantly affect our internal controls over financial reporting during the period covered by this Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are a party to claims and legal proceedings arising in the ordinary course of business. Our management evaluates our exposure to these claims and proceedings individually and in the aggregate, and provides for potential losses on such litigation if the amount of the loss is estimable and the loss is probable.

Item 1A. Risk Factors

In addition to the other information set forth in this Report, we refer you to the risk factors disclosed in the section titled “Risk Factors” in our Annual Report on Form 10-K for December 31, 2015 filed with the Securities and Exchange Commission.

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

(a) On January 25, 2016 and January 28, 2016, we issued 1,000 and 500 shares of our common stock, respectively, to two investors upon the exercise of warrants that were granted in connection with the formation of Business First and our banking subsidiary. We received an aggregate of $15,000 upon the exercise of the warrants. The shares were issued to accredited investors, and thus in reliance on the exemption from registration contained in Section 4(2) of the Securities Act and Rule 506 of Regulation D. No commissions or other remuneration was paid upon the exercise of the warrants.

(b) The proceeds from the above described stock issuance will be used for working capital and general corporate purposes.

(c) Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Number	Description
3.1	Amended and Restated Articles of Incorporation of Business First Bancshares, Inc.[1]
3.2	Bylaws of Business First Bancshares, Inc.[2]
4.1	Specimen common stock certificate[3]
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	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference from Exhibit 3.1 to Business First’s Registration Statement on Form S-4 filed on November 12, 2014
(2) Incorporated by reference from Exhibit 3.2 to Business First’s Registration Statement on Form S-4 filed on November 12, 2014
(3) Incorporated by reference from Exhibit 4.1 to Business First’s Registration Statement on Form S-4 filed on November 12, 2014

SIGNATURES

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

	BUSINESS FIRST BANCSHARES, INC.
May 16, 2016	/s/ David R. Melville, III David R. Melville, III President and Chief Executive Officer
May 16, 2016	/s/ Steven Champney Steven Champney Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

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

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

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

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

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

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

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

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

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

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

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

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

Date: May 16, 2016

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

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Steven Champney, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 16, 2016

/s/ Steven Champney
Steven Champney
Chief Financial Officer

EXHIBIT 32.1

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

As adopted pursuant to

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Business First Bancshares, Inc. (“Business First”) for the period ending ended March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, David R. Melville, III, as President and Chief Executive Officer of Business First, and Steven Champney, as Chief Financial Officer of Business First, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

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

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

Date: May 16, 2016

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

/s/ Steven Champney
Steven Champney
Chief Financial Officer