Business First Bancshares (Q4 2025 Earnings)
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Corporate Speakers:

- Matthew Sealy; Business First Bancshares; SVP, Director of Corporate Strategy and FP&A
- David Melville; Business First Bancshares; Chairman and Chief Executive Officer
- Gregory Robertson; Business First Bancshares; Chief Financial Officer
- Jerry Vascocu; b1BANK; President
- Philip Jordan; Business First Bancshares; Chief Banking Officer

Participants:

- Matt Olney; Stephens; Analyst
- Michael Rose; Raymond James; Analyst
- Feddie Strickland; Hovde Group; Analyst
- Gary Tenner; D.A. Davidson; Analyst
- Christopher Marinac; Janney Montgomery Scott; Analyst

PRESENTATION

Operator^ Ladies and gentlemen, thank you for standing by. (Operator Instructions) At this time, I would like to welcome everyone to the Business First Bancshares Q4 2025 Earnings Call. (Operator Instructions)

I would now like to turn the conference over to Matt Sealy. You may begin.

Unidentified Speaker^ Good afternoon. Thank you all for joining. Earlier today we issued our Fourth Quarter 2025 Earnings Press Release, a copy of which is available on our website, along with the slide presentation that we will reference during today's call. Please refer to Slide 3 of our presentation which includes our safe harbor statements regarding forward-looking statements and the use of non-GAAP financial measures. For those of you joining by phone, please note the slide presentation is available on our website at www.blbank.com. Please also note our safe harbor statements are available on Page 6 of our earnings press release that was filed with the SEC today. All comments made during today's call are subject to the safe harbor statements in our slide presentation and earnings release.

I'm joined this afternoon by Business First Bancshares Chairman and CEO, Jude Melville, Chief Financial Officer, Greg Robertson, Chief Banking Officer, Philip Jordan, and President of b1BANK, Jerry Vascocu. After the presentation, we'll be happy to address any questions you may have.

And with that, I'll turn the call over to you, Jude.

David Melville^ Okay. Thanks, Matt. Good afternoon, everybody. We thank you all for being with us today. I'd like to begin our conversation with a brief high-level review of the work our team accomplished in 2025, which turned out to be, in my opinion, one of the most meaningful and positive years our franchise has experienced. I'll start with a few of the nonfinancial highlights. While they don't contribute much to the short-term modeling that this call invariably centers around, they are what enables future opportunity and therefore representative of the most important work that we do.

Over the course of '25, we conducted two major core conversions and implemented a number of software platforms designed to prepare us for managing at this and future scale. We continued to develop multiple internal divisions focused on preventing and mitigating fraud, internal loan review, audit, and various CRM capabilities, contributing to both our ability to operate safely and maintenance of a positive regulatory relationship. We continued our practice of incrementally evolving our footprint, closing three banking centers and opening one. We made big strides developing our correspondent banking initiative into a significant part of the bank contributing meaningful noninterest income, growing the client base to over 175 community banks. We announced and then at the turn of the year closed the acquisition of Progressive Bank in North Louisiana.

We -- and this may sound out a place on a call such as this, but we learned some lessons about working through credit issues for the first time in a number of years, things will ultimately make us better providers and managers of credit in the future. For the fifth year in a row, we are one of the winners of the American Banker's Best Banks to Work For award, voted on by employees and therefore one of my favorite awards to win.

These nonfinancial accomplishments are important, and I'm proud of them, but they of course aren't alone sufficient. 2025 was also a year of accomplishment from a balance sheet perspective. Over the past 12 months, we bolstered our capital ratios with tangible common equity increasing by 90 basis points and consolidated CET1 capital increasing 50 basis points year-over-year. We grew tangible book value 17.3%. We have as balanced a balance sheet as we have ever had, with limited concentrations in any lending category and significant geographic diversification. We grew loans and deposits in tandem, particularly in the fourth quarter as we got through some of the bigger nonfinancial projects and returned with more focus to production. We began purchasing shares back for the first time in almost 6 years and positioned ourselves to have that tool as a viable option in the future. We increased our common stock dividend for the seventh year in a row.

Now we recognize that all this nonfinancial and balance sheet activity needs to lead up to something else, something tangible. Over the course of 2025, we delivered strong P&L improvement beyond what we or the analysts forecasted. We grew ROAA beyond our stated 1% goal to 1.06% core ROAA for the year and 1.16 core ROA in the fourth quarter. We delivered a 14% increase in EPS over the course of the year and in the fourth quarter, a 20% year-over-year improvement. We grew our full year core margin beyond our stated goals of 3.50% to 3.63% and we held noninterest expense growth relatively flat

while growing revenue, generating positive operating leverage, posting a sub-60% efficiency ratio in the fourth quarter.

In sum, we are turning the investments we've made over the past few years into momentum, which leads me to believe that even though 2025 was a typical year for b1, 2026 will be even more fruitful. With our major systems implementations behind us, we will focus more on optimizing the systems which will lead to greater efficiencies. With a healthy footprint in place, we will focus less on expanding it and more on deepening it.

By the way, over the past few weeks, we are pleased to begin to take advantage of some of the disruption in the Houston market by recruiting Jon Heine, formerly of Veritex, to be our new market leader, and he's already been able to add a couple of impressive bankers to the foundational team we have in place.

Finally, we will focus less in 2026 on embarking upon new major projects and more on daily execution. We have a good team, we're in good markets, and we're focused on the right things: sustainable ROA, tangible book value accretion, EPS enhancement, noninterest revenue giving us greater revenue optionality, and noninterest expense discipline leading to continued efficiency ratio improvement. It's an exciting time and we look forward to discussing it further over the course of the call. I thank you all again for your attention, and I'll turn it over to Greg.

Gregory Robertson^ Thank you, Jude. And good afternoon, everyone. As always, I'll spend a few minutes reviewing our results, and we'll discuss our updated outlook before we open up to Q&A. Fourth quarter GAAP net income and EPS available to common shareholders was $21 million and $0.71 per share and included $2.2 million in merger and core conversion-related expense, $995,000 loss on former bank premises and $35,000 gain on sale of securities.

Excluding these noncore items and non-GAAP core net income and EPS available to common shareholders was $23.5 million and $0.79 per share. From our perspective, fourth quarter results marked another quarter of strong financial performance generating, as Jude mentioned, a 1.16 core ROA with our core efficiency ratio falling to 59.7% for the quarter. A notable impact during the fourth quarter included continuing meaningful contribution from our correspondent banking group.

Also, as Jude mentioned, we added several new slides to our earnings presentation, and I'll start on Slide 24, a new overview slide from our loan portfolio. Total loans held for investment increased $168.4 million or 11.1% annualized on a linked-quarter basis. The higher-than-expected loan growth was driven by an overall improved demand and a slowing in paydowns and payoffs, specifically new and renewed loan production of approximately $500 million during the fourth quarter compared to a slower scheduled and nonscheduled paydowns and payoffs of $332 million.

Recall in the previous quarter, we experienced a slight decrease in net loan production which was a result of $395 million in paydowns and payoffs only offset by $368 million new and renewed loan generation during the third quarter.

On a linked quarter basis, owner-occupied CRE loans increased $76 million or 28% annualized, while nonowner-occupied CRE loans increased $77 million or 23.9% annualized. Based on unpaid principal balances, Texas-based loans slightly -- declined slightly from 39% as of December 31, 2025. We expect that percentage of the Texas loans to further decline with the closing of the Progressive Bank to approximately 36% for the first quarter.

Moving back to Slide 16. Total deposits increased $191.7 million, mostly due to net increase in interest-bearing deposits of $236.2 million on a linked quarter basis, somewhat offset by a net decrease in noninterest-bearing deposits of $44.5 million from the prior quarter. The increase in interest-bearing deposits was largely driven by approximately $105 million in public funds and $60.8 million in commercial money market accounts. We do expect somewhat of an outflow of the public funds markets during the first quarter, consistent with prior year's Q1 seasonality.

Moving to the margin. Our GAAP reported fourth quarter net interest margin increased 3 basis points linked quarter to 3.71%. While the non-GAAP core net interest margin, excluding purchase accounting accretion, increased 1 basis point from 3.63% to 3.64% for the quarter ended in December. The margin performance during the quarter was driven by elevated loan discount accretion due to a single large acquired loan paying off sooner than we expected. Loan discount accretion during the quarter was elevated at $1.4 million. Including the addition of Progressive, we expect quarterly accretion in 2026 of approximately $1.8 million.

On a linked quarter basis, cost of total deposits decreased 15 basis points, while total loan yields decreased 13 basis points. Core loan yields, excluding loan discount accretion for the fourth quarter, was 6.78%, down 15 basis points from the prior quarter. The total cost of deposits for the month ended December was 2.44% which compared to the weighted average of the fourth quarter of 2.51%.

We are pleased with our ability to hold the line on new loan yields during the quarter with a weighted average new and renewed loan yield of 6.97% for the fourth quarter. However, with the interest rate cuts we experienced during the fourth quarter, we did start seeing some pressure from overall loan pricing.

I'd like to take a moment to explain some of the movement in the margin during the fourth quarter. We recognized $1 million of interest income reversal for a nonaccrual loan. This translated to about 5 basis points in the fourth quarter net interest margin. That is to say, we had -- had we not recognized this accrual reversal, our Q4 margin would have been 5 basis points higher. It is of note until we find a resolution on that credit that was primarily responsible for the income adjustment, we would expect this somewhat of a drag to remain.

We are pleased with our ability to manage funding costs for the quarter with the weighted average rate of all new interest-bearing deposit accounts during December of 3.51% down from September's weighted average rate of new interest-bearing deposit accounts of 3.66%.

I'd like to make a note of a few takeaways, Slide 22 in our investor deck, as we continue to see 45% to 55% overall deposit betas achievable regarding any future rate cuts. I would also like to point out, overall core CD balance retention rate was about 83% during the fourth quarter. That statistic reflects our team's continued focus on maintaining or retaining core deposit relationships. Our baseline assumption is that we do not receive any further rate cuts in 2026. We have worked hard to manage our balance sheet to a relatively neutral position, and we believe we can achieve modest margin improvement in a slightly down rate environment.

Lastly, on the topic of net interest margin, I'd like to mention in a new slide we created and added to the quarterly slide presentation. Slide 20 is a combination of two prior slides and shows our GAAP and core net interest margin in the context of the volatility in the Fed funds rate since 2020. We're proud of our ability over the years to maintain the margin with a relatively tight range. This slide also shows our ability to hold the line on overall loan yields in a declining rate environment while managing funding costs downward.

Moving on to the income statement. GAAP noninterest expense was $52.4 million and included $1.4 million acquisition-related expense and $796,000 conversion-related expense. Core net interest expense for the fourth quarter of $50.2 million was up slightly from the prior quarter but we do expect an increase in Q1 -- in the Q1 core expense base, primarily due to the closing of the Progressive acquisition and timing of various first quarter annual expense resets.

As a reminder, we should begin to recognize the impact of progressive cost saves post conversion which should occur in the third quarter of this year.

Fourth quarter GAAP and core noninterest income was about $12.2 million and $13.2 million, respectively. GAAP results did include a $35,000 gain on sale of securities and a $995,000 loss on former bank premises. Core noninterest income results for the fourth quarter were better than we expected, primarily due to swap fee revenue, which was about $1 million higher than expected. Also included in core noninterest income was $312,000 gain on OREO. We expect near-term quarterly noninterest income to be in the mid- to high $13 million range which includes approximately $1 million quarterly contribution from the Progressive Bank acquisition closed on January 1.

Lastly, I'd like to provide some context of the credit migration during the fourth quarter. Total loans past due 30 days or more excluding nonaccruals as a percentage of total loans held for investment increased from 27 basis points to 64 at December 31. The ratio of nonperforming loans compared to loans held for investment increased 42 basis points to

1.24% at December 31, while the ratio of nonperforming assets compared to total assets increased 26 basis points to 1.09% compared to the linked quarter. The increases in the nonperforming loans and assets ratio over the linked quarter were largely attributable to the deterioration of a single $25.8 million commercial real estate relationship.

With that, that will conclude my prepared remarks, and I'll hand it back over to Jude so he can wrap up the conversation.

David Melville^ Okay. Thanks, Greg. I just want to take one moment to welcome our new progressive -- former Progressive bank shareholders and employees as well if you're listening, excited about that partnership and I feel like everything that we've worked on thus far is ahead of schedule in terms of from our getting the approvals that we needed to get to close it to all the social integration work that we've already done, enjoyed over the past couple of weeks, being able to spend time with a number of employees and the former board members and we're real excited about incorporating that into our already existing strong North Louisiana franchise, which is an important part of our footprint, an important part of the state, and look forward to continuing to make a significant contribution to the economy and our role as a community bank in that area.

So with that, I'd be happy to turn it over to the answer -- question-and-answer period, do our best to answer any questions you might have.

QUESTIONS AND ANSWERS

Operator^ We will now begin the question-and-answer session. (Operator Instructions) And our first question comes from the line of Matt Olney with Stephens.

Matt Olney^ I want to start on the loan growth front. Sounds like the paydowns that have been a challenge over the last few quarters weren't as much of a challenge this quarter. Any more color you can add to that as far as the fourth quarter growth and then the outlook for organic loan growth from here?

Gregory Robertson^ I think -- Matt, this is Greg. You're right. I think we did have a great quarter. I think some of that was just a little bit of pent-up demand that we've been working on for a while. So the bankers did a good job of landing it. Then just a little bit of downshift in the payoffs that we've seen kind of created that really great quarter. As far as going forward, we still feel very comfortable with the mid-single-digit loan growth throughout the balance of 2026.

Matt Olney^ And Greg, just a follow-up on that comment. Does the mid-single digits, does that imply a more balanced view of the paydowns that have kind of ebbed and flowed throughout 25? Or any commentary kind of what that assumes with the paydowns?

Gregory Robertson^ Yes. That's a more balanced view would be a good way of putting it. If you think about we're kind of coming out of the -- if you roll back the clock to the

quarter where we were producing extremely high loan growth, double-digit to almost 20% annualized loan growth quarters 2, 3 years ago, I think we're unwinding out of that. So having a more reasonable loan growth expectation might be a little bit easier to achieve without the headwinds from the payoffs.

Matt Olney^ Okay. That's helpful, Greg. (inaudible)

David Melville^ Just a little more color on the loan growth in the fourth quarter. It was nice to see that it's kind of led by Southwest Louisiana and North Louisiana. We worked hard to build a footprint that's diversified. You think about that first from a credit perspective, but you also want to think about diversification from a production standpoint. And it's interesting to track that over time and certainly want to give those areas their due for contributing so much to the strong quarter on the production side.

And Texas is an important investment for us, and we'll continue to be and we're hovering around 40% of our exposure there, it’s a good healthy number. But that doesn't mean that there aren't a lot of good things happening in Louisiana as well. And a lot of investments up and down the Mississippi River and Meta making the major investment up in North Louisiana. So it's nice to see some of that paying off in terms of increased demand, and we look forward to a balanced production throughout our footprint over the next couple of years.

Matt Olney^ Okay. Great. Then I guess shifting over to the credit side. Any more details you can disclose behind that relationship that went to nonperforming. What drove the downgrade and looked like a pretty decent sized loan. Where does that loan rank among your large relationships you have with the bank.

Then, Jude, I think you mentioned in the prepared remarks, there were some lessons learned when it comes to credits, I didn't know if that was speaking to this specific credit or just more broadly, if you could just expand on that?

Gregory Robertson^ Yes, Matt, the credit that we identified was a commercial real estate medical facility in the Houston area. We've been really -- we've been dealing with it for the balance of the year. We got real close to resolution on it. We feel like we've marked it down to where the loss from here on out would be immaterial at this point. But we just have moved that that forward. I don't know that there's anything more to say about it than that. We've just been working with it for a while and thought we had a real resolution in hand and it kind of kept dragging on. So we decided to do the prudent thing and move it over.

Matt Olney^ And where does that rank size-wise?

Gregory Robertson^ Size-wise, I would say that's one of our larger, if not one of the largest single commercial real estate exposures.

David Melville^ Yes. I think it's the largest single that's for which we hold the exposure on our books. As you know we try to actively participate exposures, particularly when they get to the $20 million, $25 million level and certainly at this level at anything above this level. So yes, it's one of the larger ones. And -- if you think about lessons learned or things to continue to work with I do think the biggest lesson in banking is just concentration risk and exposure risk. You can do everything right, and they're going to be -- there's going to be something that happens to certain credits. If you look at banks that have failed or just been in serious trouble over the past 15 years, generally it comes down to a relatively small number of outsized credits. So one of the reasons that our metrics have moved around a little bit more than we would like, have been more volatile, is because the loans that we've had something happen on have been slightly bigger. So not necessarily representative of the entire portfolio. It just feels worse when it hits the different stages of the life cycle of a credit that you're working through.

So I think a reinforcement of the idea that we want to -- even as we continue to grow, we want to keep our individual loan exposures to manageable levels. Then we also want to make sure that on our concentrations from an industry perspective or a geography perspective that that we don't get too over-reliant on any one particular type of loan.

I think -- and these are just generic. We've been -- we've had a long period here where we haven't had to really run many credit issues through any kind of process. So just as we kind of remember how to do that, if you will, there are going to be lessons learned about how aggressive you are when you see warning signs and how you do from a monitoring standpoint along the way and -- not so much with this particular credit as much as just -- those are just general things that I think whatever stumbles we've had credit-wise over the past 12, 15 months will benefit us as we continue to make credit decisions along the way and continue to refine our processes as we continue to get bigger.

Matt Olney^ Okay. Appreciate all the color. I'll step back.

Operator^ Our next question comes from the line of Michael Rose with Raymond James.

Michael Rose^ Jude, you mentioned in the prepared remarks that the focus this year is going to be more so on daily execution versus any sort of major projects. I don't want to put any words in your mouth, but I might take that to mean or someone might take that to mean that maybe additional M&A opportunities may not be in the cards. Obviously you've been a fairly acquisitive here lately, but just wanted to get a better sense of kind of what that comment means? And maybe if you can remind us on some of the projects that you've recently completed and maybe just what that daily execution would mean? I know there's a lot in there, but hopefully you can provide some context.

David Melville^ Yes sir, I appreciate you asking that, actually. We had a busy year, busy number of years, but in particular, this year, in addition to consummating -- or integrating an acquisition in Dallas and then consummating an acquisition in North Louisiana. We also did a lot of process improvement internally and although -- and we've talked about on these calls a few times a number of projects that we took on that are technology-

related. So we -- not only did we convert another bank, Oakwood, over the course of the year, we actually converted ourselves to a new platform, a new core platform, which is a 2-year project and involved pretty much everybody in the bank. So it's a big deal.

We also had three or four others, five or six in total implementations which does take a certain amount of bandwidth and takes a certain amount of energy and the things that we felt like we needed to do to be able to manage and run more effectively at $9 billion in size over two states and a significant geography versus what we could manage and run when we do everybody follow our -- all the employees and most of the clients, exec team had the relationships with as you scale, you need better processes.

So we -- you want better visibility into numbers and managing by those things including pricing software, as we're thinking about credit exposure and thinking in a more sophisticated way about what kind of profitability that incremental client adds to the bank's overall profitability is something that we're better at than we were before because of some of these implementations.

So what I meant in my comments was we don't really -- we'll always be incrementally upgrading and incrementally adding. We don't have any implementations that in the aggregate will be as substantial as we had last year, and we'll focus more this year on making sure that we're maximizing the output from the implementation process last year.

So it's one thing to do it -- it's another to then use it in an optimal manner. So we want to focus on making sure that we're actually making better decisions because of the data that we have. We want to make sure that we're providing better client service because of the systems that we've invested in. We want to make sure that our employees' efficiency and happiness around doing their job is enhanced. That we believe involves taking a little bit of a breath and just making sure that we're maximizing the investments we've already made.

On the M&A front, yes, we're not prioritizing seeking another M&A alternative now. We've made a number of really -- what we believe to be really good investments and partners throughout the years, and we're beginning to see -- we believe we have the opportunity now to demonstrate why those good partners not only give us greater opportunity over time and diversify our risk, but also have been a good financial partners leading to increased profitability. Sometimes the way you can really demonstrate that is to pause the M&A for a second and kind of let the good things percolate and catch up with you.

So we saw significant improvement in ROA over the course of 2024 -- or excuse me, 2025. I'll share with you last time that we intend to be -- we intend to be over 1.2% ROA last half of this year, 2026. So that's become more of a focus for us than seeking to expand. We want to deepen the relationships that we have which will, in turn, lead to greater profitability which leads to greater tangible book value which should lead to an enhanced share price. And that gives you more optionality for M&A down the road.

So that's kind of -- we're kind of at that point where we believe we've -- we've made a number of investments over the years and we want to see -- we want to be able to demonstrate what we know which is that they were good investments that we've done well and we want to be able to prove that out a little bit through increased financial performance before we take on other initiatives. So we're going to execute. We're going to work on the investments that we've made, and we're going to be good bankers day-to-day and that will translate into increased profitability that will be sustainable and that will give us more optionality to embark upon future projects down the road.

Michael Rose^ Appreciate the comprehensive answer. Maybe just following up on one of those aspects on the capital front. It was good to see the buyback announcement you guys execute on it. How should we think about that going forward? You guys are trading at about 1.2x tangible the earn back on the buyback is I would characterize as fairly attractive. Capital is really going to start to appear once the deals are fully integrated and the cost saves realized. Should we think about you guys, at least in the near term, as kind of a regular way buyer, just given where you are? Just trying to frame up the capital discussion.

David Melville^ That's a great question. Obviously something we're talking about at the board level. We'll continue to talk about -- we were able to buyback of about 150,000 shares in the fourth quarter at what proved to be attractive prices -- $24.70s kind of range and those were more in the 110% to 115% ROA branch or tangible book value multiple range. So I think -- we certainly -- I would certainly agree with your characterization of 120% still being a reasonable price and over the course of the year, we'll -- we have more optionality on what we do with capital than we did last year. Last year, we had more than we had the year before because we've been building up those capital levels. So we will definitely continue to look for opportunities on a quarterly basis.

I don't see us just setting it and letting go and saying we're going to buy back this number of shares no matter what. We want to -- we do want to be -- want to pick and choose when the right moments are. But certainly, I would think over the long run, anything below 120% would be an attractive price.

Matthew Sealy^ Mike, when you think about Q1, we're going to take a little bit of a step back in tangible book on a per share basis with Progressive closing. So we'd be I guess an effective kind of slightly higher multiple right now than just 120%. This is something we're thinking about when we evaluate buybacks.

Michael Rose^ Perfect. Got it. At the outset, they said keep it to two follow-up questions, so I'm going to use that one. Just as we kind of think about hiring from here on the opportunity side, just given some of the dislocation, you mentioned Jon Heine was hired as the new Houston Market President. Can you just frame up what you see as kind of the opportunity to hire? I think we've heard mixed messages that some banks are being fairly aggressive. Some are saying, like, take a wait-and-see approach. Just wanted to see how we should think about the opportunity set for you guys? Or is it just more opportunistic or are you making a full-court press here?

David Melville^ Yes. I think the answer actually is probably similar to the answer I just gave you on stock buybacks, right? I think it's kind of we're prepared to hire and would like to hire if they're the right people. We don't feel any need to hit our -- in order to hit our profitability targets and our growth targets. We don't necessarily have to hire to do that. But we do know that there are good people out there and they're living in a more disruptive world than they were a year ago. And we know we also are a different bank than we were a year or 2 years or 3 years ago in terms of our capabilities, which also means in terms of our attractiveness as an employer.

So I want to continue to have conversations. I would expect that we will add another two or three in Houston over the next couple of months as we've got some conversations and we'd like to bring those to fruition. And beyond that, it will really be on a case-by-case basis. We -- we don't have to hire every banker in the world to do what we want to do in terms of financial performance, we just need to hire the right bankers, and so we'll focus on evaluating that on a case-by-case basis as the opportunities arise. But I do think there will be opportunities, and we will be thoughtful about them.

One reason we can afford to be a little less aggressive on M&A is that we believe that in our footprint, organic growth is going to be possible and part of that is growing with our current staff, but part of that is incrementally adding some additional team members for the near future, we believe that's a more likely and profitable use of our capital than M&A.

Michael Rose^ Great. Appreciate all the color. I'll step back.

Operator^ Next question comes from the line of Feddie Strickland with Hovde Group.

Feddie Strickland^ Good afternoon, everybody. Just wanted to start on the DDAs. I understand the public flows have an impact here, but I do still think they're down a little bit year-over-year. Can you talk through maybe what the opportunity might be to kind of grow those on a year-over-year basis, trying to account for some of the seasonality in those public funds flows?

Gregory Robertson^ I think -- good question. I think what we still see some migration from some of those noninterest-bearing accounts to interest-bearing. So not a huge piece of that business is actually account -- we're losing accounts. I think it's more of a migration. That has slowed over the course of 2025. With the addition of our Progressive bank partnership, they have a nice amount of their deposit base is noninterest-bearing. So we should get some lift up from that in the first quarter. We still have plans to continue to focus on elevating deposit gathering through treasury, noninterest-bearing sources. So it's something that we are looking at in '26 as a big part of our plan of operation, but there has been some movement.

Feddie Strickland^ Got it. That's really helpful. And just wanted to step back into the fees. I appreciate the guidance there. But obviously the star of the show was the swap

fees, and you saw in brokerage commission fees, I think up a little bit as well. What's kind of the level of opportunity in each of those areas, I guess contributions from SSW and the FIG group as well?

Gregory Robertson^ Yes. We see opportunity in 2026 for that to continue to expand. I think it's going to be like we've kind of really messaged for the last few quarters that it will be a bumpy, upward-sloping trajectory though, just like this last quarter was with swap fees being outsized. I think the -- what we're excited about is the continued integration of our SBA group, Waterstone, the Houston area. There's some opportunity we feel like in that to continue to grow not only with our bankers becoming more comfortable with that SBA production, just the rate environment with SBA lending becoming economically more stable with a lower rate environment. So we're excited about that.

I think you're -- also, we think the SSW Group and the brokerage piece of our business, so to speak, we do continue to see it scaling. We've been investing over the last few years to more talent in that area, and I think we'll continue to invest. So we do look at upside for that.

So I think noninterest income as a whole, we feel like that will be in the mid- to upper $13 million per quarter with the addition of the Progressive group. So we're comfortable understanding that it may be rocky going upward, but I think the trajectory is still -- we're excited about that upper slope.

Feddie Strickland^ And one more, if I could squeeze it in, just on the loan growth and the growth in general coming from Southwest and Southeast Louisiana. Jude, I think you touched on that a little bit earlier on. But just curious, I mean is it going to be a more balanced pace of growth, you feel like, going forward that it's going to be sort of evenly balanced between Southern Louisiana and the Texas markets? Or is it just going to kind of differ from quarter-to-quarter, depending on what's in the pipeline. I'm just curious whether that's a deliberate part of the strategy? Or that's just kind of how it shook out this quarter?

David Melville^ Well the deliberate part of the strategy was building the footprint that we knew that not every market had to hit every moment in order to move forward and delivering a -- building a footprint that didn't rely upon one market to carry the load all the time. I do think just based on demographics and differentials between economies that there's more upward growth opportunity in Dallas and Houston. That's just -- they're just faster-growing cities and we have enough of a footprint in both that we'll be able to take advantage of that. But we've got a good core consistent growth in most of the Louisiana market. So that in a quarter in which one of our larger markets slowed down a little bit, for whatever reason that is, Dallas was slower this quarter, then we'll have our more consistent markets across Louisiana there to get us some more predictability as we try to forecast out from a balance sheet perspective over time.

So yes. I guess the answer to your question is, did we specifically say we need to grow Southwest Louisiana and North Louisiana faster in the fourth quarter than the other markets? No. But we did specifically try to build a constructive footprint in which we could have different parts of the footprint experiencing greater success at different times, which hopefully over time leads to a good, consistent, moderate growth pace for the bank as a whole.

Gregory Robertson^ Feddie, I think if you think about 2025 as a whole, we had both North Louisiana and South -- Southwest Louisiana grow over $100 million in loans and deposits each. We're excited about Southwest Louisiana now is over $2 billion in deposits, which is a large part of our deposit base and an important part of that. North Louisiana with that kind of growth as well, $100 million in deposits. They are now over $1 billion -- or approaching $1 billion in deposits, and with the addition of our Progressive partners, that will be approaching $2 billion. So we're excited about those areas. And --

David Melville^ As I said, in the Southwest Louisiana-Dallas comparison is an intriguing one, because one of the PCs behind the construction of our footprint was that not only would different areas produced differently at different times but that we could be a little more thoughtful about funding generation versus loan generation, depending upon what type of market. So as Greg mentioned, the Southwest Louisiana has been able to be more aggressive on deposits over the past 2 or 3 years, partly because we knew we had growth in the Dallas loan environment. So Dallas is actually our largest market as measured by the loan volume. And in Southwest Louisiana, it might be our largest market based on deposit volume, and they've both been able to be slightly more aggressive because the other supports the other. So it's a symbiotic relationship, and I know a lot of banks over time have talked about the rural versus the urban mix of their footprint and trying to get the best of both worlds. I think we have some real-world examples of where that's working, which is (inaudible) and I think bodes well for the future.

Jerry Vascocu^ Yes. I'd like to add one thing -- this is Jerry, by the way, Jerry Vascocu here, Feddie. Just an important part of this is I want to call out a lot of this growth is coming from adding new clients. It's not just a legacy client base. It's tenured strong bankers in our footprint, new bankers, bringing in new clients is accounting for quite a bit of that growth which is really nice to see in these markets that we've got substream with them.

Philip Jordan^ Yes. And Feddie, this is Phil. I'd just add also obviously we're excited with the addition of Jon and the horsepower that he's going to bring the Houston market. But in North Louisiana we're excited with the Progressive addition and the opportunity, as Jude talked about in '26, deepening our existing relationships, Progressive being able to deepen those relationships with a bigger balance sheet.

Operator^ Next question comes from the line of Gary Tenner with D.A. Davidson.

Gary Tenner^ So my questions have largely been answered, but I wanted to just ask about the swap business again. As you think about that business, if and when we get to more of a steady state rate environment, how do you see that business kind of trending in that sort of environment?

Gregory Robertson^ Yes. I think one of the things that the rate environment could provide some challenges. But I think as we continue to scale and understand our philosophy around pricing and fixed rate loan pricing with long duration, we would like to -- and I think our bankers are becoming accustomed to taking some of that -- those rate bets off the table with longer duration deals. So I think as the -- we continue to integrate that process. It's a very new process within our bank, being only a little over a year old. But I think as we integrate that process with our bankers and our new bankers and they understand that we would like to manage that rate risk longer maturity fixed rate loans through the swap vehicle. I think that gives us, even in a rate environment that may be more challenging than what it has been, more opportunity.

David Melville^ Yes. So that's a good point. It's not just about the economic opportunity for the fee generation. It's also an opportunity to offer the client more options even while we put ourselves in a better place to manage our interest rate risk. We -- it's important -- one reason we added that chart that Matt described earlier, I believe, or maybe it was Greg described earlier, the chart showing the pretty consistent NIM over time was we don't believe that we should be taking significant interest rate risk, and we've managed the – not only the bank's entire balance sheet, but our investment portfolio in particular, we manage it for cash flow as consistent predictable cash flow as opposed to yield, and I think we've had good results, not trying to guess on rates. And so this enables us to give the client what they might want in terms of longer-term predictability of rates, but still enables us to have more flexibility in the construction of our ALCO posture.

I would also say, although certainly the lower rate means that maybe less swap activity more SBA activity, the other dynamic for us is that we don't just do these things for ourselves, for our own clients, but we also do them for other banks. And so with the swap product, we are just now -- I think just yesterday in fact, we closed one for -- one of our first ones for the client of another bank, other institution in our Community Bank network. Over the end of last year, we actually closed a couple of swaps for other banks, not for their clients, but for their own balance sheets.

So as we were able to discuss with and educate our banker partners on the opportunities to provide more optionality to their clients, I would think that we would continue to see success growing the volume of swaps, even if it ends up faster rate of growth on all of our balance sheet as opposed to with our direct clients.

Operator^ And our last question.

David Melville^ I was going to say real quick on the correspondent banking, I think our biggest opportunity. We have about a little over 175, 180 clients. And -- but with most of them, we just do probably just one thing for the vast majority. So part of our biggest

opportunity there that we've been working on is having more of a unified sales approach, so that we can actually increase the share of wallet, if you will, and have multiple -- provide multiple opportunities. So most of the folks that we've done SBA with, we haven't done swaps with and vice versa or the other products that we offer our largest one, actually, our original one was through our affiliate, SSW, who manages other banks' investment portfolios. We have $6 billion to $7 billion in assets under management. And being able to cross-sell the different products that we've been working on adding to our tool set, I think it's the biggest opportunity that we have regardless of the demographic or economic changes in the environment.

Operator^ And our last question comes from the line of Christopher Marinac with Janney Montgomery Scott

Christopher Marinac^ I wanted to go back to the reserve. What should be the reserve ratio over time? Just looking at kind of annualized losses this quarter, last quarter, and just thinking the 3.5, 4-year average life, should the reserve be higher over time even if we included the discount, as you have on the deck?

Gregory Robertson^ Yes. I think that's a great question, Chris. I think what we talk about internally is continuing to move that reserve to 1% or higher. I think the charge-offs that we had in this quarter took it down a few basis points. But I think internally, we're reserving at a rate of 1.20% on every new loan we make. So over time we would like that to be above 1%. I think that's our intention as well. And especially when you add the credit marks in there. I think we're currently all in about 1.06%, like we show in the deck, and that will continue to move up with the closing of the Progressive transaction.

Christopher Marinac^ Got it. Should annualized losses be somewhere kind of in the mid-teens or 20? Or do you have a thought about that?

Gregory Robertson^ Yes. We would think those would be somewhere in the lower teens to mid-teens next year. I think 10 to 12 basis points of annualized losses is what we're kind of thinking where we ended up the year at about 19 basis points. So we've kind of -- as we work through some of those NPLs, we've identified paths to move those off with minimal to no loss. So just a matter of time and unwinding some of those.

David Melville^ We took some losses on them last year and have some specific reserves as well. So.

Matthew Sealy^ There can be a bit of a drag in terms of the actual recoveries -- so growth to Greg's point, is maybe in the mid-teens net kind of lower to low double digits annualized.

Gregory Robertson^ Chris, I think the days of us operating in the 4 to 5 basis points of charge-offs, that's going to be tough going forward, I think just for the industry as a whole.

Christopher Marinac^ Great. Then last question just has to do with kind of efficiency goals over time. If you look at expenses to assets, you've made a little bit of progress in the last year. Obviously you've got integrating with Progressive, but just in the big picture, do you think we'll see more leverage going through the platform this next 12 to 18 months?

Gregory Robertson^ Yes. I think our plan is to continue to improve operating leverage. I think as we -- as Jude mentioned, we're moving toward being able to have a run rate of a fourth quarter 1.20% run rate. I think if that's achieved, and I think that thing gets close to 60 on an annualized basis. Then you'll probably start seeing on a monthly basis into the 50s post-integration of Progressive here and there as we continue to improve performance and earnings throughout the balance of the second half of the year. As we get into '27, we would expect that -- our goal is to have that into the 50s, and I think there's -- once you kind of achieve those third quarter, fourth quarter, '26 ROA targets that we've been talking about, and there's a pretty natural glide path into the 50s, and I think that -- we feel like it's very achievable.

David Melville^ And necessary.

Operator^ That concludes the question-and-answer session. I would like to turn the call back over to Jude Melville for closing remarks.

David Melville^ Okay. Well thanks again, everybody, for joining us. I realize you have choices to make on your time and your attention, and I appreciate you spending this hour with us. Very pleased with the quarter and how we ended the year and matched up well with our expectations of building momentum over the course of the year and look forward to seeing that momentum continue in 2026. Thank you all again. And hope you have a great end to the week.

Operator^ Ladies and gentlemen, that concludes today's call. Thank you all for joining in. You may now disconnect.