UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2024

or

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

For the transition period from ______ to ______

Commission file number: 001-38447

BUSINESS FIRST BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.00 per share	BFST	NASDAQ Global Select Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by a check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

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

As of July 25, 2024, the issuer has outstanding 25,502,175 shares of common stock, par value $1.00 per share.

BUSINESS FIRST BANCSHARES, INC.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2024 (Unaudited)	December 31, 2023
ASSETS		
Cash and Due from Banks	$ 208,051	$ 226,110
Federal Funds Sold	113,587	151,134
Securities Available for Sale, at Fair Values (Amortized Cost of $960,990 at June 30, 2024 and $963,978 at December 31, 2023)	875,048	879,571
Mortgage Loans Held for Sale	680	835
Loans and Lease Receivable, Net of Allowance for Loan Losses of $41,412 at June 30, 2024 and $40,414 at December 31, 2023	5,121,440	4,952,371
Premises and Equipment, Net	68,545	69,480
Accrued Interest Receivable	30,617	29,916
Other Equity Securities	38,805	33,942
Other Real Estate Owned	1,983	1,685
Cash Value of Life Insurance	100,684	96,478
Deferred Taxes	25,888	27,323
Goodwill	91,527	88,391
Core Deposit and Customer Intangible	10,849	11,895
Other Assets	16,185	15,419
Total Assets	$ 6,703,889	$ 6,584,550
LIABILITIES		
Deposits:		
Noninterest Bearing	$ 1,310,204	$ 1,299,090
Interest Bearing	4,253,466	3,949,700
Total Deposits	5,563,670	5,248,790
Securities Sold Under Agreements to Repurchase	18,445	18,885
Bank Term Funding Program	-	300,000
Federal Home Loan Bank Borrowings	305,208	211,198
Subordinated Debt	99,875	99,990
Subordinated Debt - Trust Preferred Securities	5,000	5,000
Accrued Interest Payable	4,517	14,841
Other Liabilities	42,644	41,587
Total Liabilities	6,039,359	5,940,291
Commitments and Contingencies (See Note 11)		
SHAREHOLDERS' EQUITY		
Preferred Stock, No Par Value; 5,000,000 Shares Authorized; 72,010 Shares ($1,000 Liquidation Preference) Issued at both June 30, 2024 and December 31, 2023, respectively	71,930	71,930
Common Stock, $1 Par Value; 50,000,000 Shares Authorized; 25,502,175 and 25,351,809 Shares Issued and Outstanding at June 30, 2024 and December 31, 2023, respectively	25,502	25,352
Additional Paid-in Capital	397,851	397,447
Retained Earnings	237,031	216,115
Accumulated Other Comprehensive Loss	(67,784)	(66,585)
Total Shareholders' Equity	664,530	644,259
Total Liabilities and Shareholders' Equity	$ 6,703,889	$ 6,584,550

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Interest Income:				
Interest and Fees on Loans	$ 90,604	$ 79,223	$ 176,551	$ 152,991
Interest and Dividends on Non-taxable Securities	1,076	1,101	2,150	2,166
Interest and Dividends on Taxable Securities	4,857	3,996	9,382	7,713
Interest on Federal Funds Sold and Due From Banks	3,333	1,528	7,798	2,470
Total Interest Income	99,870	85,848	195,881	165,340
Interest Expense:				
Interest on Deposits	40,900	23,680	78,929	42,608
Interest on Borrowings	4,961	8,842	11,412	16,657
Total Interest Expense	45,861	32,522	90,341	59,265
Net Interest Income	54,009	53,326	105,540	106,075
Provision for Credit Losses	1,310	538	2,496	3,760
Net Interest Income after Provision for Credit Losses	52,699	52,788	103,044	102,315
Other Income:				
Service Charges on Deposit Accounts	2,537	2,413	4,976	4,694
Loss on Sales of Securities	-	(61)	(1)	(62)
Gain on Sales of Loans	2,460	494	2,599	1,105
Other Income	7,179	9,112	13,988	14,609
Total Other Income	12,176	11,958	21,562	20,346
Other Expenses:				
Salaries and Employee Benefits	25,523	22,339	50,939	45,515
Occupancy and Equipment Expense	5,717	5,112	11,074	10,113
Other Expenses	11,870	12,251	23,619	22,753
Total Other Expenses	43,110	39,702	85,632	78,381
Income Before Income Taxes	21,765	25,044	38,974	44,280
Provision for Income Taxes	4,559	5,305	8,198	9,516
Net Income	17,206	19,739	30,776	34,764
Preferred Stock Dividends	1,350	1,350	2,700	2,700
Net Income Available to Common Shareholders	$ 15,856	$ 18,389	$ 28,076	$ 32,064
Earnings Per Common Share:				
Basic	$ 0.63	$ 0.73	$ 1.11	$ 1.28
Diluted	$ 0.62	$ 0.73	$ 1.10	$ 1.27

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Consolidated Net Income	$ 17,206	$ 19,739	$ 30,776	$ 34,764
Other Comprehensive Income (Loss):				
Unrealized Gain (Loss) on Investment Securities	4,881	(15,612)	(1,536)	(7,611)
Unrealized Gain (Loss) on Share of Other Equity Investments	—	(1,309)	14	(1,443)
Reclassification Adjustment for Losses on Sale of AFS Investment Securities Included in Net Income	-	61	1	62
Income Tax Effect	(1,031)	3,562	322	1,900
Other Comprehensive Income (Loss)	3,850	(13,298)	(1,199)	(7,092)
Consolidated Comprehensive Income	$ 21,056	$ 6,441	$ 29,577	$ 27,672

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

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED JUNE 30, 2024 AND 2023
(Dollars in thousands, except per share data)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances at March 31, 2023	$ 71,930	$ 25,320	$ 394,677	$ 173,761	$ (67,998)	$ 597,690
Comprehensive Income:						
Net Income	-	-	-	19,739	-	19,739
Other Comprehensive Loss	-	-	-	-	(13,298)	(13,298)
Cash Dividends Declared on Preferred Stock, $18.75 Per Share	-	-	-	(1,350)	-	(1,350)
Cash Dividends Declared on Common Stock, $0.12 Per Share	-	-	-	(3,035)	-	(3,035)
Stock Based Compensation Cost	-	24	1,198	-	-	1,222
Balances at June 30, 2023	$ 71,930	$ 25,344	$ 395,875	$ 189,115	$ (81,296)	$ 600,968
Balances at March 31, 2024	$ 71,930	$ 25,485	$ 398,511	$ 224,742	$ (71,634)	$ 649,034
Comprehensive Income:						
Net Income	-	-	-	17,206	-	17,206
Other Comprehensive Income	-	-	-	-	3,850	3,850
Cash Dividends Declared on Preferred Stock, $18.75 Per Share	-	-	-	(1,350)	-	(1,350)
Cash Dividends Declared on Common Stock, $0.14 Per Share	-	-	-	(3,567)	-	(3,567)
Stock Issuance	-	-	(31)	-	-	(31)
Stock Based Compensation Cost	-	17	(629)	-	-	(612)
Balances at June 30, 2024	$ 71,930	$ 25,502	$ 397,851	$ 237,031	$ (67,784)	$ 664,530

The accompanying notes are an integral part of these financial statements

BUSINESS FIRST BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023
(Dollars in thousands, except per share data)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances at December 31, 2022	$ 71,930	$ 25,110	$ 393,690	$ 163,955	$ (74,204)	$ 580,481
Cumulative Effect of Change in Accounting Principle for Credit Losses	-	-	-	(827)	-	(827)
Comprehensive Income:						
Net Income	-	-	-	34,764	-	34,764
Other Comprehensive Loss	-	-	-	-	(7,092)	(7,092)
Cash Dividends Declared on Preferred Stock, $37.50 Per Share	-	-	-	(2,700)	-	(2,700)
Cash Dividends Declared on Common Stock, $0.24 Per Share	-	-	-	(6,077)	-	(6,077)
Stock Based Compensation Cost	-	234	2,185	-	-	2,419
Balances at June 30, 2023	71,930	25,344	395,875	189,115	(81,296)	600,968
Balances at December 31, 2023	$ 71,930	$ 25,352	$ 397,447	$ 216,115	$ (66,585)	$ 644,259
Comprehensive Income:						
Net Income	-	-	-	30,776	-	30,776
Other Comprehensive Loss	-	-	-	-	(1,199)	(1,199)
Cash Dividends Declared on Preferred Stock, $37.50 Per Share	-	-	-	(2,700)	-	(2,700)
Cash Dividends Declared on Common Stock, $0.28 Per Share	-	-	-	(7,160)	-	(7,160)
Stock Issuance	-	-	(31)	-	-	(31)
Stock Based Compensation Cost	-	150	435	-	-	585
Balances at June 30, 2024	$ 71,930	$ 25,502	$ 397,851	$ 237,031	$ (67,784)	$ 664,530

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

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

	For the Six Months Ended June 30,	
	2024	2023
Cash Flows From Operating Activities:		
Consolidated Net Income	$ 30,776	$ 34,764
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	2,496	3,760
Depreciation and Amortization	2,372	2,381
Net Accretion of Purchase Accounting Adjustments	(1,549)	(4,208)
Stock Based Compensation Cost	585	2,419
Net Amortization of Securities	1,188	2,200
Loss on Sales of Securities	1	62
Gain on Sale of Loans	(2,201)	(288)
Income on Other Equity Securities	(1,125)	(3,552)
Gain on Sale of Other Real Estate Owned, Net of Writedowns	(65)	(223)
Increase in Cash Value of Life Insurance	(1,206)	(1,071)
Deferred Income Tax Expense	1,757	1,762
Changes in Assets and Liabilities:		
Increase in Accrued Interest Receivable	(701)	(1,195)
Increase in Other Assets	(561)	(552)
Increase (Decrease) in Accrued Interest Payable	(10,324)	5,574
Increase in Other Liabilities	1,224	6,908
Net Cash Provided by Operating Activities	22,667	48,741
Cash Flows From Investing Activities:		
Purchases of Securities Available for Sale	(43,902)	(36,215)
Proceeds from Maturities / Sales of Securities Available for Sale	13,519	10,445
Proceeds from Paydowns of Securities Available for Sale	32,182	28,936
Net Cash Paid in Acquisition	(3,279)	-
Purchases of Other Equity Securities	(4,166)	(12,873)
Redemption of Other Equity Securities	442	17,625
Purchase of Life Insurance	(3,000)	(2,273)
Net Increase in Loans	(167,600)	(286,502)
Net Purchases of Premises and Equipment	(1,444)	(2,241)
Loss on Disposal of Premises and Equipment	7	-
Proceeds from Sales of Other Real Estate	409	1,126
Net (Increase) Decrease in Federal Funds Sold	37,547	(158,244)
Net Cash Used in Investing Activities	(139,285)	(440,216)

(CONTINUED)

	For the Six Months Ended June 30, 2024	2023
Cash Flows From Financing Activities:		
Net Increase in Deposits	314,880	194,098
Net Increase (Decrease) in Securities Sold Under Agreements to Repurchase	(440)	3,022
Net Decrease in Federal Funds Purchased	-	(14,057)
Net Advances (Repayments) on Federal Home Loan Bank Borrowings	94,010	(47,938)
Net Proceeds (Repayments) on Bank Term Funding Program	(300,000)	300,000
Repayment of Subordinated Debt	-	(5,700)
Gain on Extinguishment of Debt	-	(941)
Costs from Issuance of Common Stock	(31)	-
Payment of Dividends on Preferred Stock	(2,700)	(2,700)
Payment of Dividends on Common Stock	(7,160)	(6,077)
Net Cash Provided by Financing Activities	98,559	419,707
Net Increase (Decrease) in Cash and Cash Equivalents	(18,059)	28,232
Cash and Cash Equivalents at Beginning of Period	226,110	152,740
Cash and Cash Equivalents at End of Period	$ 208,051	$ 180,972
Supplemental Disclosures for Cash Flow Information:		
Cash Payments for:		
Interest on Deposits	$ 79,390	$ 41,079
Interest on Borrowings	$ 21,275	$ 12,612
Income Tax Payments	$ 5,391	$ 4,291
Supplemental Schedule for Noncash Investing and Financing Activities:		
Change in the Unrealized Loss on Securities Available for Sale	$ (1,535)	$ (7,549)
Change in the Unrealized Gain (Loss) on Equity Securities	$ 14	$ (1,443)
Change in Deferred Tax Effect on the Unrealized Loss on Securities Available for Sale	$ 322	$ 1,900
Transfer of Loans to Other Real Estate	$ 642	$ 1,118

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

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

Note 1– Basis of Presentation –

The unaudited consolidated financial statements include the accounts of Business First Bancshares, Inc. (the “Company”) and its two direct, wholly-owned subsidiaries, b1BANK (the “Bank”), and Coastal Commerce Statutory Trust I; and the Bank’s wholly-owned subsidiaries, Business First Insurance, LLC, Smith Shellnut Wilson, LLC, Waterstone LSP, LLC ("Waterstone"), and b1 Securities, LLC. The Bank operates out of full-service banking centers and loan production offices in markets across Louisiana, the Dallas/Fort Worth metroplex and Houston, Texas. As a state bank, it is subject to regulation by the Office of Financial Institutions (“OFI”), State of Louisiana, and the Federal Deposit Insurance Corporation (“FDIC”) and undergoes periodic examinations by these agencies. The Company is also regulated by the Federal Reserve and is subject to periodic examinations.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial results for the periods presented, and all such adjustments are of a normal recurring nature. All material intercompany transactions are eliminated. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire year.

These interim consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission and, therefore, certain information and footnote disclosures normally presented in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) have been omitted or abbreviated. These interim financial statements should be read in conjunction with the audited consolidated financial statements and footnote disclosures for the Company’s previously filed Form 10-K for the year ended December 31, 2023.

Preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Critical accounting estimates that are particularly susceptible to significant change for the Company include the determination of the acquired loans and allowance for credit losses and purchase accounting adjustments (other than loans). Other estimates include goodwill, fair value of financial instruments, investment securities and the assessment of income taxes. Management does not anticipate any material changes to estimates in the near term. Factors that may cause sensitivity to the aforementioned estimates include but are not limited to: external market factors such as market interest rates and employment rates, changes to operating policies and procedures, economic conditions in the Company’s markets, and changes in applicable banking regulations. Actual results may ultimately differ from estimates.

Accounting Standards Adopted in Current Period

None

Accounting Standards Not Yet Adopted

ASU No. 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." ASU 2023-07 requires public business entities, including those with one reportable segment, to disclose additional disaggregated information about a reportable segment’s income and expenses in both interim and annual periods. The standard requires disclosure of the title and position of the chief operating decision maker and an explanation of how the reported measure(s) of segment profit or loss are utilized in assessing segment performance allocating resources.

The update permits disclosure of additional measures of a segment’s profit and losses, if multiple measures are utilized by the chief operating decision maker to allocate resources and evaluate profitability. Such measures, to the extent they are relevant but not in accordance with GAAP, shall be accompanied by appropriate disclosures and reconciliations to the appropriate reported GAAP amounts.

ASU 2023-07 is effective for the Company starting January 1, 2025, though early adoption is permitted. Retrospective application is required upon adoption. The Company is still evaluating the impact of the ASU on the consolidated financial statements and disclosures.

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

ASU No. 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." ASU 2023-09 requires public business entities to disclose additional information in specified categories with respect to the rate reconciliation for federal, state and foreign income taxes. In addition, the updates also require more details about reconciling items in the rate reconciliation in some categories if items meet a quantitative threshold. ASU 2023-09 also requires all entities to disclose income taxes paid, net of refunds, disaggregated by federal, state and foreign taxes for annual periods and to disaggregate the information by jurisdiction based on a quantitative threshold. ASU 2023-09 is effective for the Company starting January 1, 2025, though early adoption is permitted. ASU 2023-09 is not expected to have a significant impact on our financial statements.

Note 2– Reclassifications –

Certain reclassifications may have been made to conform to reporting in 2024. These reclassifications have no material effect on previously reported shareholders' equity or net income.

Note 3– Mergers and Acquisitions –

Waterstone, LSP, LLP

On January 31, 2024, the Company consummated the acquisition, through b1BANK, of Waterstone LSP, LLC ("Waterstone"), headquartered in Katy, Texas. Upon consummation of the acquisition, the Company paid $3.3 million in cash to the former owners of Waterstone. As part of the acquisition, the Company recorded $3.1 million in goodwill.

The Company has recorded approximately $1.1 million and $236,000 of acquisition-related costs within merger and conversion-related expenses and salaries and benefits for the six months ended June 30, 2024, and year ended December 31, 2023, respectively.

Note 4– Earnings per Common Share –

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

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
	(Dollars in thousands, except per share data)			
Numerator:				
Net Income	$ 17,206	$ 19,739	$ 30,776	$ 34,764
Less: Preferred Stock Dividends	1,350	1,350	2,700	2,700
Net Income Available to Common Shares	$ 15,856	$ 18,389	$ 28,076	$ 32,064
Denominator:				
Weighted Average Common Shares Outstanding	25,265,495	25,101,683	25,196,079	25,041,124
Dilutive Effect of Stock Options and RSAs	130,119	231,689	216,063	237,021
Weighted Average Dilutive Common Shares	25,395,614	25,333,372	25,412,142	25,278,145
Basic Earnings Per Common Share From Net Income Available to Common Shares	$ 0.63	$ 0.73	$ 1.11	$ 1.28
Diluted Earnings Per Common Share From Net Income Available to Common Shares	$ 0.62	$ 0.73	$ 1.10	$ 1.27

Note 5– Securities –

The amortized cost and fair values of securities available for sale as of June 30, 2024, and December 31, 2023 are summarized as follows:

	June 30, 2024			
	(Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Securities	$ 17,661	$ -	$ 1,354	$ 16,307
U.S. Government Agencies	10,212	-	806	9,406
Corporate Securities	49,646	32	5,029	44,649
Mortgage-Backed Securities	567,000	929	48,906	519,023
Municipal Securities	316,471	127	30,935	285,663
Total Securities Available for Sale	$ 960,990	$ 1,088	$ 87,030	$ 875,048

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

	December 31, 2023			
	(Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Securities	$ 17,690	$ -	$ 1,451	$ 16,239
U.S. Government Agencies	10,258	-	848	9,410
Corporate Securities	49,609	-	5,770	43,839
Mortgage-Backed Securities	555,148	976	49,814	506,310
Municipal Securities	331,273	298	27,798	303,773
Total Securities Available for Sale	$ 963,978	$ 1,274	$ 85,681	$ 879,571

The following tables present a summary of securities with gross unrealized losses and fair values at June 30, 2024 and December 31, 2023, 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 non-credit related.

	June 30, 2024					
	Less Than 12 Months		12 Months or Greater		Total	
	(Dollars in thousands)					
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury Securities	$ -	$ -	$ 16,307	$ 1,354	$ 16,307	$ 1,354
U.S. Government Agencies	-	-	9,406	806	9,406	806
Corporate Securities	6,878	122	36,539	4,907	43,417	5,029
Mortgage-Backed Securities	71,861	574	375,297	48,332	447,158	48,906
Municipal Securities	9,435	130	260,833	30,805	270,268	30,935
Total Securities Available for Sale	$ 88,174	$ 826	$ 698,382	$ 86,204	$ 786,556	$ 87,030

	December 31, 2023					
	Less Than 12 Months		12 Months or Greater		Total	
	(Dollars in thousands)					
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury Securities	$ -	$ -	$ 16,239	$ 1,451	$ 16,239	$ 1,451
U.S. Government Agencies	-	-	9,410	848	9,410	848
Corporate Securities	7,529	362	36,106	5,408	43,635	5,770
Mortgage-Backed Securities	21,436	895	375,891	48,919	397,327	49,814
Municipal Securities	8,013	63	270,467	27,735	278,480	27,798
Total Securities Available for Sale	$ 36,978	$ 1,320	$ 708,113	$ 84,361	$ 745,091	$ 85,681

As of June 30, 2024, and December 31, 2023, respectively, no allowance for credit losses was recognized on available for sale securities in an unrealized loss position as management does not believe any of the securities are impaired due to credit quality. This determination is based on the Company's analysis of the underlying risk characteristics including credit ratings, historical loss experience, and other qualitative factors. Further, the securities continue to make principal and interest payments under their contractual terms and management does not have the intent to sell any of the securities and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of amortized cost basis. Therefore, the Company has determined the unrealized losses are due to changes in market interest rates compared to rates when the securities were acquired.

The amortized cost and fair values of securities available for sale as of June 30, 2024, 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	$ 26,564	$ 26,177
One to Five Years	181,991	169,315
Over Five to Ten Years	371,519	335,500
Over Ten Years	380,916	344,056
Total Securities Available for Sale	$ 960,990	$ 875,048

Securities available for sale with a fair value of $322.5 million and $629.7 million, were pledged as collateral on public deposits and for other purposes as required or permitted by law as of June 30, 2024, and December 31, 2023, respectively.

At June 30, 2024 and December 31, 2023, accrued interest receivable on securities was $4.8 million and $4.7 million, respectively, and included within accrued interest receivable on the consolidated balance sheets.

Note 6– Loans and the Allowance for Loan Losses –

Loans receivable at June 30, 2024 and December 31, 2023 are summarized as follows:

	June 30, 2024	December 31, 2023
	(Dollars in thousands)	
Real Estate Loans:		
Commercial	$ 2,198,119	$ 2,217,928
Construction	637,466	669,798
Residential	743,876	682,394
Total Real Estate Loans	3,579,461	3,570,120
Commercial	1,520,392	1,358,838
Consumer and Other	62,999	63,827
Total Loans Held for Investment	5,162,852	4,992,785
Less:		
Allowance for Loan Losses	(41,412)	(40,414)
Net Loans	$ 5,121,440	$ 4,952,371

The performing 1-4 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 June 30, 2024 and December 31, 2023. Commercial and agricultural loans are pledged against the Federal Reserve Banks' ("FRB") discount window as of June 30, 2024, and December 31, 2023.

Net deferred loan origination fees were $13.2 million and $12.6 million at June 30, 2024 and December 31, 2023, respectively, and are netted in their respective loan categories above. In addition to loans issued in the normal course of business, the Company considers overdrafts on customer deposit accounts to be loans and reclassifies overdrafts as loans in its consolidated balance sheets. At both June 30, 2024 and December 31, 2023, overdrafts of $2.2 million have been reclassified to loans.

The Bank is the lead lender on participations sold, without recourse, to other financial institutions which amounts are not included in the consolidated balance sheets. The unpaid principal balances of mortgages and other loans serviced for others were approximately $741.1 million and $723.5 million at June 30, 2024 and December 31, 2023, respectively. The Company had servicing rights of $1.1 million recorded at both June 30, 2024, and December 31, 2023, and is recorded within other assets.

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

Portfolio Segments and Risk Factors

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

Real Estate Portfolio Segment

Real Estate: Commercial loans are extensions of credit secured by owner-occupied and non-owner-occupied collateral. Repayment is generally dependent on the successful operations of the property. General economic conditions may impact the performance of these types of loans, including fluctuations in the value of real estate, vacancy rates, and unemployment trends. Real estate commercial loans also include farmland loans that can be, or are, used for agricultural purposes. These loans are usually repaid through refinancing, cash flow from the borrower’s ongoing operations, development of the property, or sale of the property.

Real Estate: Construction loans include loans to small-to-midsized businesses to construct owner-occupied properties, loans to developers of commercial real estate investment properties and residential developments and, to a lesser extent, loans to individual clients for construction of single-family homes in the Company’s market areas. Risks associated with these loans include fluctuations in the value of real estate, project completion risk and changes in market trends. The Company is also exposed to risk based on the ability of the construction loan borrower to finance the loan or sell the property upon completion of the project, which may be affected by changes in secondary market terms and criteria for permanent financing since the time that the Company funded the loan.

Real Estate: Residential loans include first and second lien 1-4 family mortgage loans, as well as home equity lines of credit, in each case primarily on owner-occupied primary residences. The Company is exposed to risk based on fluctuations in the value of the real estate collateral securing the loan, as well as changes in the borrower’s financial condition, which could be affected by numerous factors, including divorce, job loss, illness, or other personal hardship. Real estate residential loans also include multi-family residential loans originated to provide permanent financing for multi-family residential income producing properties. Repayment of these loans primarily relies on successful rental and management of the property.

Commercial Portfolio Segment

Commercial loans include general commercial and industrial, or C&I, loans, including commercial lines of credit, working capital loans, term loans, equipment financing, asset acquisition, expansion, and development loans, borrowing base loans, letters of credit and other loan products, primarily in the Company's target markets that are underwritten based on the borrower's ability to service the debt from income. Commercial loan risk is derived from the expectation that such loans generally are serviced principally from the operations of the business, and those operations may not be successful. Any interruption or discontinuance of operating cash flows from the business, which may be influenced by events not under the control of the borrower such as economic events and changes in governmental regulations, could materially affect the ability of the borrower to repay the loan.

Consumer and Other Portfolio Segment

Consumer and other loans include a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans. The risk is based on changes in the borrower's financial condition, which could be affected by numerous factors, including divorce, job loss, illness or other personal hardship, and fluctuations in the value of the real estate or personal property securing the consumer loan, if any.

The following table sets forth, as of June 30, 2024, and December 31, 2023, the balance of the allowance for credit losses by loan portfolio segment. The allowance for credit losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments.

Allowance for Credit Losses and Recorded Investment in Loans Receivable

	June 30, 2024 (Dollars in thousands)					
	Real Estate: Commercial	Real Estate: Construction	Real Estate: Residential	Commercial	Consumer and Other	Total
Allowance for Loan Losses:						
Beginning Balance	$ 17,676	$ 6,596	$ 5,485	$ 10,424	$ 233	$ 40,414
Charge-offs	9	(60)	(283)	(682)	(943)	(1,959)
Recoveries	10	-	5	58	159	232
Provision (Recovery)	(145)	(563)	898	1,522	1,013	2,725
Ending Balance	$ 17,550	$ 5,973	$ 6,105	$ 11,322	$ 462	$ 41,412
Reserve for Unfunded Loan Commitments:						
Beginning Balance	$ 206	$ 1,546	$ 177	$ 1,372	$ 23	$ 3,324
Provision (Recovery)	109	(537)	(12)	208	3	(229)
Ending Balance	$ 315	$ 1,009	$ 165	$ 1,580	$ 26	$ 3,095
Total Allowance for Credit Losses	$ 17,865	$ 6,982	$ 6,270	$ 12,902	$ 488	$ 44,507

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	December 31, 2023 (Dollars in thousands)					
	Real Estate: Commercial	Real Estate: Construction	Real Estate: Residential	Commercial	Consumer and Other	Total
Allowance for Loan Losses:						
Beginning Balance	$ 14,702	$ 5,768	$ 5,354	$ 11,721	$ 633	$ 38,178
Adoption of ASU 2016-13	4,823	933	(365)	(2,483)	(248)	2,660
Beginning Balance After Adoption	19,525	6,701	4,989	9,238	385	40,838
Charge-offs	(2,049)	(36)	(42)	(2,813)	(1,489)	(6,429)
Recoveries	26	1	18	672	327	1,044
Provision (Recovery)	174	(70)	520	3,327	1,010	4,961
Ending Balance	$ 17,676	$ 6,596	$ 5,485	$ 10,424	$ 233	$ 40,414
Reserve for Unfunded Loan Commitments:						
Beginning Balance	$ 220	$ 137	$ 13	$ 229	$ 6	$ 605
Adoption of ASU 2016-13	116	2,113	190	657	121	3,197
Beginning Balance After Adoption	336	2,250	203	886	127	3,802
Provision (Recovery)	(130)	(704)	(26)	486	(104)	(478)
Ending Balance	$ 206	$ 1,546	$ 177	$ 1,372	$ 23	$ 3,324
Total Allowance for Credit Losses	$ 17,882	$ 8,142	$ 5,662	$ 11,796	$ 256	$ 43,738

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

	June 30, 2024		December 31, 2023	
	Loan Balance	Specific Allocations	Loan Balance	Specific Allocations
	(Dollars in thousands)			
Real Estate Loans:				
Commercial	$ 4,021	$ -	$ 883	$ -
Construction	5,229	726	2,334	513
Residential	758	-	1,533	-
Total Real Estate Loans	10,008	726	4,750	513
Commercial	-	-	-	-
Consumer and Other	-	-	-	-
Total	$ 10,008	$ 726	$ 4,750	$ 513

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Credit Quality Indicators

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

The following tables set forth the credit quality indicators, disaggregated by loan segment, as of June 30, 2024, and December 31, 2023:

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	June 30, 2024						
		Criticized					
	Pass (Risk Grade 10-45)	Special Mention (Risk Grade 50)	Substandard (Risk Grade 60)	Doubtful (Risk Grade 70)	Loss (Risk Grade 80)	Total	Current Period Charge-offs
	(Dollars in thousands)						
Real Estate: Commercial							
Originated in 2024	$ 103,152	$ -	$ 1,293	$ -	$ -	$ 104,445	$ -
Originated in 2023	194,596	13,360	80	-	-	208,036	-
Originated in 2022	753,819	15,567	-	-	-	769,386	-
Originated in 2021	397,278	6,010	481	-	-	403,769	-
Originated in 2020	128,527	1,952	448	-	-	130,927	3
Originated Prior to 2020	490,556	5,958	6,293	1,059	-	503,866	(12)
Revolving	76,802	244	644	-	-	77,690	-
Revolving Loans Converted to Term	-	-	-	-	-	-	-
Total Real Estate: Commercial	$ 2,144,730	$ 43,091	$ 9,239	$ 1,059	$ -	$ 2,198,119	$ (9)
Real Estate: Construction							
Originated in 2024	$ 85,735	$ -	$ -	$ -	$ -	$ 85,735	$ -
Originated in 2023	134,574	234	450	-	-	135,258	18
Originated in 2022	214,952	3,348	745	-	-	219,045	9
Originated in 2021	67,439	-	3,463	-	-	70,902	33
Originated in 2020	27,444	-	16	-	-	27,460	-
Originated Prior to 2020	31,635	109	2,425	-	-	34,169	-
Revolving	64,500	397	-	-	-	64,897	-
Revolving Loans Converted to Term	-	-	-	-	-	-	-
Total Real Estate: Construction	$ 626,279	$ 4,088	$ 7,099	$ -	$ -	$ 637,466	$ 60
Real Estate: Residential							
Originated in 2024	$ 43,996	$ -	$ -	$ -	$ -	$ 43,996	$ -
Originated in 2023	74,728	-	77	-	-	74,805	-
Originated in 2022	210,306	339	822	11	-	211,478	6
Originated in 2021	98,033	-	225	-	-	98,258	1
Originated in 2020	64,232	385	474	47	-	65,138	2
Originated Prior to 2020	136,652	1,986	7,035	302	-	145,975	69
Revolving	103,250	-	662	-	-	103,912	205
Revolving Loans Converted to Term	314	-	-	-	-	314	-
Total Real Estate: Residential	$ 731,511	$ 2,710	$ 9,295	$ 360	$ -	$ 743,876	$ 283
Commercial							
Originated in 2024	$ 188,760	$ 1,668	$ 8,301	$ -	$ -	$ 198,729	$ -
Originated in 2023	265,629	2,137	93	-	-	267,859	3
Originated in 2022	228,549	505	9,515	84	-	238,653	449
Originated in 2021	119,527	1,886	1,678	16	-	123,107	241
Originated in 2020	43,942	80	591	-	-	44,613	43
Originated Prior to 2020	76,424	1,948	548	450	-	79,370	(54)
Revolving	560,508	5,243	2,282	28	-	568,061	-
Revolving Loans Converted to Term	-	-	-	-	-	-	-
Total Commercial	$ 1,483,339	$ 13,467	$ 23,008	$ 578	$ -	$ 1,520,392	$ 682
Consumer and Other							
Originated in 2024	$ 6,102	$ -	$ 24	$ -	$ -	$ 6,126	$ -
Originated in 2023	7,866	-	39	-	-	7,905	34
Originated in 2022	5,707	-	12	-	-	5,719	27
Originated in 2021	2,556	-	46	-	-	2,602	4
Originated in 2020	1,302	-	74	-	-	1,376	31
Originated Prior to 2020	20,501	-	104	-	-	20,605	-
Revolving	18,235	-	429	-	-	18,664	847
Revolving Loans Converted to Term	2	-	-	-	-	2	-
Total Consumer and Other	$ 62,271	$ -	$ 728	$ -	$ -	$ 62,999	$ 943
Total Loans	$ 5,048,130	$ 63,356	$ 49,369	$ 1,997	$ -	$ 5,162,852	$ 1,959

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	December 31, 2023						
		Criticized					
	Pass (Risk Grade 10-45)	Special Mention (Risk Grade 50)	Substandard (Risk Grade 60)	Doubtful (Risk Grade 70)	Loss (Risk Grade 80)	Total	Current Period Charge-offs
	(Dollars in thousands)						
Real Estate: Commercial							
Originated in 2023	$ 228,902	$ -	$ 84	$ -	$ -	$ 228,986	$ -
Originated in 2022	751,649	1,909	-	-	-	753,558	-
Originated in 2021	427,269	6,103	492	-	-	433,864	357
Originated in 2020	151,848	3,551	8	-	-	155,407	-
Originated in 2019	149,946	5,556	372	932	-	156,806	1,447
Originated Prior to 2019	379,503	1,313	7,970	335	-	389,121	245
Revolving	99,723	226	237	-	-	100,186	-
Revolving Loans Converted to Term	-	-	-	-	-	-	-
Total Real Estate: Commercial	$ 2,188,840	$ 18,658	$ 9,163	$ 1,267	$ -	$ 2,217,928	$ 2,049
Real Estate: Construction							
Originated in 2023	$ 131,617	$ -	$ -	$ -	$ -	$ 131,617	$ -
Originated in 2023	322,032	647	62	-	-	322,741	-
Originated in 2021	85,438	2,601	1,229	-	-	89,268	-
Originated in 2020	22,515	31	16	-	-	22,562	-
Originated in 2019	19,402	-	1,675	-	-	21,077	1
Originated Prior to 2019	20,180	413	588	345	-	21,526	35
Revolving	60,612	395	-	-	-	61,007	-
Revolving Loans Converted to Term	-	-	-	-	-	-	-
Total Real Estate: Construction	$ 661,796	$ 4,087	$ 3,570	$ 345	$ -	$ 669,798	$ 36
Real Estate: Residential							
Originated in 2023	$ 76,662	$ -	$ -	$ -	$ -	$ 76,662	$ -
Originated in 2022	170,229	433	410	14	-	171,086	-
Originated in 2021	98,329	-	708	-	-	99,037	11
Originated in 2020	68,281	386	520	57	-	69,244	1
Originated in 2019	54,902	1,112	1,061	119	-	57,194	22
Originated Prior to 2019	97,716	1,230	6,000	299	-	105,245	7
Revolving	103,252	-	654	-	-	103,906	1
Revolving Loans Converted to Term	20	-	-	-	-	20	-
Total Real Estate: Residential	$ 669,391	$ 3,161	$ 9,353	$ 489	$ -	$ 682,394	$ 42
Commercial							
Originated in 2023	$ 303,160	$ 1,439	$ 709	$ -	$ -	$ 305,308	$ -
Originated in 2022	267,678	698	1,196	-	-	269,572	247
Originated in 2021	136,291	5,483	928	16	-	142,718	25
Originated in 2020	48,990	448	921	42	-	50,401	49
Originated in 2019	21,137	584	640	231	-	22,592	1,632
Originated Prior to 2019	61,166	3,843	341	251	-	65,601	658
Revolving	499,642	2,128	573	28	-	502,371	202
Revolving Loans Converted to Term	275	-	-	-	-	275	-
Total Commercial	$ 1,338,339	$ 14,623	$ 5,308	$ 568	$ -	$ 1,358,838	$ 2,813
Consumer and Other							
Originated in 2023	$ 11,245	$ -	$ -	$ -	$ -	$ 11,245	$ 8
Originated in 2022	7,219	-	27	-	-	7,246	78
Originated in 2021	3,372	-	55	-	-	3,427	29
Originated in 2020	1,850	-	88	-	-	1,938	11
Originated in 2019	2,359	-	40	-	-	2,399	18
Originated Prior to 2019	18,280	-	92	-	-	18,372	61
Revolving	18,814	100	160	-	-	19,074	1,284
Revolving Loans Converted to Term	126	-	-	-	-	126	-
Total Consumer and Other	$ 63,265	$ 100	$ 462	$ -	$ -	$ 63,827	$ 1,489
Total Loans	$ 4,921,631	$ 40,629	$ 27,856	$ 2,669	$ -	$ 4,992,785	$ 6,429

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The above classifications follow regulatory guidelines and can generally be described as follows:

- Pass loans are of satisfactory quality.
- Special mention loans have an existing weakness that could cause future impairment, including the deterioration of financial ratios, past due status, questionable management capabilities and possible reduction in the collateral values.
- Substandard loans have an existing specific and well-defined weakness that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.
- Doubtful loans have specific weaknesses that are severe enough to make collection or liquidation in full highly questionable and improbable.

As of June 30, 2024, and December 31, 2023, loan balances outstanding more than 90 days past due and still accruing interest amounted to $1.4 million and $127,000, respectively. As of June 30, 2024, and December 31, 2023, loan balances outstanding on nonaccrual status amounted to $21.0 million and $16.9 million, respectively. The Bank considers all loans more than 90 days past due as nonperforming loans.

The following tables provide an analysis of the aging of loans and leases as of June 30, 2024, and December 31, 2023. All loans greater than 90 days past due are generally placed on nonaccrual status.

Aged Analysis of Past Due Loans Receivable

	June 30, 2024 (Dollars in thousands)						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment Over 90 Days Past Due and Still Accruing
Real Estate Loans:							
Commercial	$ 1,495	$ 3,592	$ 2,399	$ 7,486	$ 2,190,633	$ 2,198,119	$ 150
Construction	4,618	150	5,411	10,179	627,287	637,466	-
Residential	915	1,258	4,059	6,232	737,644	743,876	192
Total Real Estate Loans	7,028	5,000	11,869	23,897	3,555,564	3,579,461	342
Commercial	2,142	10	5,317	7,469	1,512,923	1,520,392	985
Consumer and Other	103	30	582	715	62,284	62,999	28
Total	$ 9,273	$ 5,040	$ 17,768	$ 32,081	$ 5,130,771	$ 5,162,852	$ 1,355

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	December 31, 2023 (Dollars in thousands)						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment Over 90 Days Past Due and Still Accruing
Real Estate Loans:							
Commercial	$ 240	$ 536	$ 2,954	$ 3,730	$ 2,214,198	$ 2,217,928	$ 44
Construction	279	1,320	3,198	4,797	665,001	669,798	-
Residential	1,792	1,207	4,058	7,057	675,337	682,394	20
Total Real Estate Loans	2,311	3,063	10,210	15,584	3,554,536	3,570,120	64
Commercial	1,101	71	1,622	2,794	1,356,044	1,358,838	52
Consumer and Other	280	252	188	720	63,107	63,827	11
Total	$ 3,692	$ 3,386	$ 12,020	$ 19,098	$ 4,973,687	$ 4,992,785	$ 127

The following table presents non-accrual loans by segment as of June 30, 2024, and December 31, 2023, respectively.

	June 30, 2024	December 31, 2023
	(Dollars in thousands)	
Real Estate Loans:		
Commercial	$ 2,865	$ 3,280
Construction	6,234	3,543
Residential	6,830	7,352
Total Real Estate Loans	15,929	14,175
Commercial	4,475	2,395
Consumer and Other	604	373
Total	$ 21,008	$ 16,943

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 June 30, 2024, and December 31, 2023, the concessions granted to certain borrowers included extending the payment due dates and offering below market contractual interest rates, and were not significant to the consolidated financial statement

Accrued interest receivable of $4.2 million was outstanding at both June 30, 2024, and December 31, 2023, for all loan deferrals, primarily attributable to the COVID-19 pandemic and, to a much lesser extent, hurricanes which occurred in 2020 and 2021. These loans are no longer within their deferral periods. The accrued interest on the loans is due at their maturity.

At June 30, 2024 and December 31, 2023, accrued interest receivable on loans was $25.9 million and $25.2 million, respectively, and included within accrued interest receivable on the consolidated balance sheets.

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Note 7– Long Term Debt –

On March 1, 2022, the Company assumed, in connection with the TCBI acquisition, three tranches of subordinated debt with an aggregate principal balance outstanding of $26.4 million. One tranche in the amount of $10.0 million bears an adjustable interest rate, based on a benchmark rate plus 350 basis points, until maturity on April 11, 2028. This tranche is currently redeemable at the Company's option. Another tranche in the amount of $7.5 million bears an adjustable interest rate, based on a benchmark rate plus 350 basis points, until maturity on December 13, 2028. This tranche is currently redeemable at the Company's option. The third tranche in the amount of $8.9 million had an adjustable interest rate plus 595 basis points, based on a benchmark rate, until maturity on March 24, 2027. The $8.9 million tranche was called on May 1, 2023, by the Company and has been fully extinguished. The Company recognized a $1.5 million gain on the extinguishment of this debt during 2023. These notes carried an aggregate $948,000 and $1.1 million fair value adjustment as of June 30, 2024, and December 31, 2023, respectively.

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

On March 12, 2023, the Federal Reserve Board developed the BTFP, which offered loans to banks with a term of up to one year. The loans were secured by pledging the banks' U.S. treasuries, agency securities, agency mortgage-backed securities, and any other qualifying assets. These pledged securities were valued at par for collateral purposes. The Bank participated in the BTFP and had outstanding debt of $300.0 million at December 31, 2023. These loans bore a fixed rate of 4.38% and matured on March 22, 2024, at which time the Bank repaid them in full.

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

The Company had outstanding advances from the FHLB of $305.2 million and $211.2 million as of June 30, 2024, and December 31, 2023, respectively, consisting of:

One fixed rate loan with an original principal balance of $60.0 million. The loan was made in 2021 and the balance at June 30, 2024 and December 31, 2023 was $29.3 million and $35.3 million, respectively, with interest at 0.89%. Principal and interest payments are due monthly and the loan matures in November 2026.

One fixed rate loan of $875,000 at both June 30, 2024, and December 31, 2023, that was acquired during the TCBI acquisition, with interest at 4.88% paid monthly. Principal is due at maturity in April 2025.

One fixed rate loan of $25.0 million at both June 30, 2024, and December 31, 2023, with interest at 4.89% paid monthly. Principal is due at maturity in July 2025.

One fixed rate loan of $25.0 million at both June 30, 2024, and December 31, 2023, with interest at 4.65% paid monthly. Principal is due at maturity in January 2026.

One fixed rate loan of $25.0 million at both June 30, 2024, and December 31, 2023, with interest at 4.56% paid monthly. Principal is due at maturity in July 2026.

One fixed rate loan of $25.0 million at both June 30, 2024, and December 31, 2023, with interest at 4.13% paid monthly. Principal is due at maturity in October 2028. This advance has put options beginning in October 2024.

One fixed rate loan of $25.0 million at both June 30, 2024, and December 31, 2023, with interest at 3.92% paid monthly. Principal is due at maturity in October 2030. This advance has put options beginning in October 2024.

One fixed rate loan of $25.0 million at both June 30, 2024, and December 31, 2023, with interest at 3.72%paid monthly. Principal is due at maturity in October 2033. This advance has put options beginning in October 2024.

One fixed rate loan of $25.0 million at both June 30, 2024, and December 31, 2023, with interest at 3.57% paid monthly. Principal is due at maturity in October 2033. This advance has put options beginning in October 2024.

One fixed rate loan of $25.0 million at June 30, 2024, with interest at 4.84% paid monthly. Principal is due at maturity in December 2026.

One fixed rate loan of $25.0 million at June 30, 2024, with interest at 4.78% paid monthly. Principal is due at maturity in September 2027.

One fixed rate loan of $25.0 million at June 30, 2024, with interest at 4.73% paid monthly. Principal is due at maturity in March 2028.

One fixed rate loan of $25.0 million at June 30, 2024, with interest at 4.69% paid monthly. Principal is due at maturity in September 2028.

The Company had an additional $1.2 billion remaining on the FHLB line availability at June 30, 2024.

Note 10– Leases –

The Bank leases certain branch offices through non-cancelable operating leases with terms that range from one to ten years and contain various renewal options for certain of the leases. Certain leases provide for increases in minimum monthly rental payments as defined by the lease agreement. Rental expense under these agreements was $3.0 million and $2.8 million for the six months ended June 30, 2024, and 2023, respectively. At June 30, 2024, the Company had a weighted average lease term of 6.1 years and a weighted average discount rate of 3.37%.

Future minimum lease payments under these leases are as follows:

	(Dollars in thousands)
July 1, 2024 through December 31, 2024	$ 2,379
January 1, 2025 through December 31, 2025	3,869
January 1, 2026 through December 31, 2026	3,624
January 1, 2027 through December 31, 2027	3,388
January 1, 2028 through December 31, 2028	3,068
January 1, 2029 and Thereafter	5,523
Total Future Minimum Lease Payments	21,851
Less Imputed Interest	(2,194)
Present Value of Lease Liabilities	$ 19,657

Note 11– Commitments and Contingencies –

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

The Bank’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby and commercial letters of credit is represented by the contractual amount of those instruments. The Bank’s policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. The Bank uses the same credit policies in making such commitments and conditional obligations as it does for instruments that are included in the balance sheet. In the normal course of business, the Bank has made commitments to extend credit of approximately $1.2 billion at both June 30, 2024, and December 31, 2023, and standby and commercial letters of credit of approximately $50.8 million and $45.2 million at June 30, 2024 and December 31, 2023, respectively. As discussed in Note 6, we have a reserve for unfunded loan commitments of $3.1 million and $3.3 million at June 30, 2024 and December 31, 2023, respectively.

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

Note 12– Fair Value of Financial Instruments –

Fair Value Disclosures

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

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

Recurring Basis

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

The fair values of mortgage loans held for sale are based on commitments on hand from investors within the secondary market for loans with similar characteristics.

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The following tables present the balance of assets and liabilities measured on a recurring basis as of June 30, 2024, and December 31, 2023. 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	Level 1	Level 2	Level 3
		(Dollars in thousands)		
June 30, 2024				
Available for Sale:				
U.S. Treasury Securities	$ 16,307	$ -	$ 16,307	$ -
U.S. Government Agency Securities	9,406	-	9,406	-
Corporate Securities	44,649	-	36,731	7,918
Mortgage-Backed Securities	519,023	-	519,023	-
Municipal Securities	285,663	-	259,820	25,843
Loans Held for Sale	680	-	680	-
Total	$ 875,728	$ -	$ 841,967	$ 33,761
December 31, 2023				
Available for Sale:				
U.S. Treasury Securities	$ 16,239	$ -	$ 16,239	$ -
U.S. Government Agency Securities	9,410	-	9,410	-
Corporate Securities	43,839	-	35,871	7,968
Mortgage-Backed Securities	506,310	-	506,310	-
Municipal Securities	303,773	-	282,926	20,847
Loans Held for Sale	835	-	835	-
Total	$ 880,406	$ -	$ 851,591	$ 28,815

The Company reviews fair value hierarchy classifications on a quarterly basis. Changes in the Company's ability to observe inputs to the valuation may cause reclassification of certain assets or liabilities within the fair value hierarchy.

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The table below provides a reconciliation for assets measured at fair value on a recurring basis using significant unobservable inputs, or Level 3 inputs, as of June 30, 2024, and December 31, 2023.

	Corporate Bonds	Municipal Securities
	(Dollars in thousands)	
Balance at December 31, 2022	$ 19,000	$ 34,768
Realized Gains (Losses) Included in Net Income	-	-
Unrealized Losses Included in Other Comprehensive Loss	(1,532)	(2,228)
Purchases	-	-
Sales	-	-
Maturities, Prepayments, and Calls	-	(1,798)
Transfers Into Level 3	-	-
Transfers Out of Level 3	(9,500)	(9,895)
Balance at December 31, 2023	7,968	20,847
Realized Gains (Losses) Included in Net Income	-	-
Unrealized Losses Included in Other Comprehensive Loss	(50)	(2,445)
Purchases	-	9,938
Sales	-	-
Maturities, Prepayments, and Calls	-	(2,497)
Transfers Into Level 3	-	-
Transfers Out of Level 3	-	-
Balance at June 30, 2024	$ 7,918	$ 25,843

The following table provides quantitative information about significant unobservable inputs used in fair value measurements of Level 3 assets measured at fair value on a recurring basis at June 30, 2024.

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Discounts
	(Dollars in thousands)			
June 30, 2024				
Corporate Securities	$ 7,918	Present Value of Expected Future Cash Flow Model	Liquidity Premium	2 %
Municipal Securities	25,843	Present Value of Expected Future Cash Flow Model	Liquidity Premium	1 %

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 individually evaluated loans is measured at the fair value of the collateral for collateral-dependent loans. Individually evaluated loans are Level 3 assets measured using appraisals from external parties of the collateral less any prior liens and adjusted for estimated selling costs. Adjustments may be made by management based on a customized internally developed discounting matrix. Repossessed assets are initially recorded at fair value less estimated cost to sell, which is generally 10%. The fair value of repossessed assets is based on property appraisals and an analysis of similar properties available. As such, the Bank records repossessed assets as Level 3.

	Fair Value	Level 1	Level 2	Level 3
	(Dollars in thousands)			
June 30, 2024				
Assets:				
Individually Evaluated Loans	$ 10,340	$ -	$ -	$ 10,340
Other Nonperforming Assets	1,983	-	-	1,983
Total	$ 12,323	$ -	$ -	$ 12,323
December 31, 2023				
Assets:				
Individually Evaluated Loans	$ 4,750	$ -	$ -	$ 4,750
Other Nonperforming Assets	1,685	-	-	1,685
Total	$ 6,435	$ -	$ -	$ 6,435

Fair Value Financial Instruments

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

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

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

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

Loans – The fair value for loans is estimated using discounted cash flow analyses, with interest rates currently being offered for similar loans to borrowers with similar credit rates. Loans with similar classifications are aggregated for purposes of the calculations. The allowance for 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.

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

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

The estimated approximate fair values of the Bank's financial instruments as of June 30, 2024, and December 31, 2023 are as follows:

	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
	(Dollars in thousands)				
June 30, 2024					
Financial Assets:					
Cash and Short-Term Investments	$ 321,638	$ 321,638	$ 321,638	$ -	$ -
Securities	875,048	875,048	-	841,287	33,761
Loans Held for Sale	680	680	-	680	-
Loans - Net	5,121,440	5,024,266	-	-	5,024,266
Cash Value of BOLI	100,684	100,684	-	100,684	-
Other Equity Securities	38,805	38,805	-	-	38,805
Total	$ 6,458,295	$ 6,361,121	$ 321,638	$ 942,651	$ 5,096,832
Financial Liabilities:					
Deposits	$ 5,563,670	$ 5,555,660	$ -	$ -	$ 5,555,660
Borrowings	428,528	406,469	-	406,469	-
Total	$ 5,992,198	$ 5,962,129	$ -	$ 406,469	$ 5,555,660

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	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
	(Dollars in thousands)				
December 31, 2023					
Financial Assets:					
Cash and Short-Term Investments	$ 377,244	$ 377,244	$ 377,244	$ -	$ -
Securities	879,571	879,571	-	850,756	28,815
Loans Held for Sale	835	835	-	835	-
Loans - Net	4,952,371	4,849,503	-	-	4,849,503
Cash Value of BOLI	96,478	96,478	-	96,478	-
Other Equity Securities	33,942	33,942	-	-	33,942
Total	$ 6,340,441	$ 6,237,573	$ 377,244	$ 948,069	$ 4,912,260
Financial Liabilities:					
Deposits	$ 5,248,790	$ 5,243,326	$ -	$ -	$ 5,243,326
Borrowings	635,073	613,464	-	613,464	-
Total	$ 5,883,863	$ 5,856,790	$ -	$ 613,464	$ 5,243,326

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

FORWARD-LOOKING STATEMENTS

When we refer in this Form 10-Q to "we," "our," "us," the "Company" and "Business First," we are referring to Business First Bancshares, Inc. and its consolidated subsidiaries, including b1BANK, which we sometimes refer to as "the Bank," unless the context indicates otherwise.

The information contained in this Form 10-Q is accurate only as of the date of this form and the dates specified herein.

All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q (this "Report") and other periodic reports filed by the Company, and other written or oral statements made by us or on our behalf, are "forward-looking statements," as defined by (and subject to the "safe harbor" protections under) the federal securities laws. These forward-looking statements include statements that reflect the current views of our senior management with respect to our financial performance and future events with respect to our business and the banking industry in general. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "will continue," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," and similar expressions of a future or forward-looking nature. These statements involve estimates, assumptions, and risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements.

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

- risks relating to the proposed acquisition of Oakwood Bancshares, Inc. ("Oakwood") including, without limitation: the timing of consummation of the proposed merger; the risk that any condition to closing of the proposed merger may not be satisfied or waived; the risk that the merger may not be completed at all; the diversion of management time on issues related to the proposed merger; unexpected transaction costs, including the costs of integrating operations; the risks that the businesses will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; the potential failure to fully or timely realize expected revenues and revenue synergies, including as the result of revenues following the merger being lower than expected; the risk of deposit and customer attrition; any changes in deposit mix; unexpected operating and other costs, which may differ or change from expectation; the risk of customer and employee loss and business disruptions, including, without limitation, as the result of difficulties in maintaining relationships with employees; increased competitive pressures on solicitations of customers by competitors; as well as difficulties and risks inherent with entering new markets;

- risks related to the integration of any other acquired businesses, including exposure to potential asset quality and credit quality risks and unknown or contingent liabilities, risks related to entering a new geographic market, the time and costs associated with integrating systems, technology platforms, procedures and personnel, the ability to retain key employees and maintain relationships with significant customers, the need for additional capital to finance such transactions, and possible failures in realizing the anticipated benefits from acquisitions;

- changes in the strength of the United States ("U.S.") economy in general and the local economy in our local market areas adversely affecting our customers and their ability to transact profitable business with us, including the ability of our borrowers to repay their loans according to their terms or a change in the value of the related collateral;

- economic risks posed by our geographic concentration in Louisiana, the Dallas/Fort Worth metroplex and Houston;

- the ability to sustain and continue our organic loan and deposit growth, and manage that growth effectively;

- market declines in industries to which we have exposure, such as the volatility in oil prices and downturn in the energy industry that impact certain of our borrowers and investments that operate within, or are backed by collateral associated with, the energy industry;

- volatility and direction of interest rates and market prices, which could reduce our net interest margins, asset valuations and expense expectations;
- interest rate risk associated with our business;
- changes in the levels of loan prepayments and the resulting effects on the value of our loan portfolio;
- increased competition in the financial services industry, particularly from regional and national institutions and emerging non-bank competitors;
- increased credit risk in our assets and increased operating risk caused by a material change in commercial, consumer and/or real estate loans as a percentage of our total loan portfolio;
- changes in the value of collateral securing our loans;
- deteriorating asset quality and higher loan charge-offs, and the time and effort required to resolve problem assets;
- the failure of assumptions underlying the establishment of and provisions made to our allowance for credit losses;
- changes in the availability of funds resulting in increased costs or reduced liquidity;
- our ability to maintain important deposit customer relationships and our reputation;
- a determination or downgrade in the credit quality and credit agency ratings of the securities in our securities portfolio;
- increased asset levels and changes in the composition of assets and the resulting impact on our capital levels and regulatory capital ratios;
- our ability to prudently manage our growth and execute our strategy;
- risks associated with our acquisition and de novo branching strategy;
- the loss of senior management or operating personnel and the potential inability to hire qualified personnel at reasonable compensation levels;
- legislative or regulatory developments, including changes in the laws, regulations, interpretations or policies relating to financial institutions, accounting, tax, trade, monetary and fiscal matters;
- government intervention in the U.S. financial system;
- changes in statutes and government regulations or their interpretations applicable to us, including changes in tax requirements and tax rates;
- natural disasters and adverse weather, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, epidemics and pandemics such as coronavirus, and other matters beyond our control; and
- other risks and uncertainties listed from time to time in our reports and documents filed with the U.S. Securities and Exchange Commission (“SEC”).

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Report. Additional information on these and other risk factors can be found in Item 1A. “Risk Factors” of this Report and in Item 1A. “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC.

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

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

The following discussion and analysis focuses on significant changes in the financial condition of Business First and its subsidiaries from December 31, 2023 to June 30, 2024, and its results of operations for the three and six months ended June 30, 2024. This discussion and analysis is intended to highlight and supplement information presented elsewhere in this report and should be read in conjunction with (i) the accompanying unaudited consolidated financial statements and the notes thereto (the "Notes") and (ii) our Annual Report on Form 10-K for the year ended December 31, 2023, including the audited consolidated financial statements and notes thereto, management's discussion and analysis, and the risk factor disclosures contained therein. This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that Business First believes are reasonable but may prove to be inaccurate. Certain risks, uncertainties and other factors, including those set forth under "Forward-Looking Statements," "Risk Factors" and elsewhere in this report, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. Business First assumes no obligation to update any of these forward-looking statements.

Overview

We are a registered financial holding company headquartered in Baton Rouge, Louisiana. Through our wholly-owned subsidiary, b1BANK, a Louisiana state chartered bank, we provide a broad range of financial services tailored to meet the needs of small-to-midsized businesses and professionals. Since our inception in 2006, our priority has been and continues to be creating shareholder value through the establishment of an attractive commercial banking franchise in Louisiana and across our region. We consider our primary market to include the State of Louisiana, the Dallas/Fort Worth metroplex, and Houston. We currently operate out of banking centers and loan production offices across Louisiana and Texas. As of June 30, 2024, we had total assets of $6.7 billion, total loans of $5.2 billion, total deposits of $5.6 billion, and total shareholders' equity of $664.5 million.

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

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

Other Developments

Bank Term Funding Program ("BTFP")

On March 12, 2023, the Federal Reserve developed the BTFP, which offered loans to banks with a term of up to one year. The loans are secured by pledging the banks' U.S. treasuries, agency securities, agency mortgage-backed securities, and any other qualifying assets. These pledged securities were valued at par for collateral purposes. The Bank participated in the BTFP and had outstanding debt of $300.0 million at December 31, 2023. The loans bore a fixed rate of 4.38% and matured on March 22,2024, at which time we repaid them in full.

Federal Reserve Bank's Discount Window

On April 11, 2023, the Bank opened two new lines of credit for additional contingent liquidity, totaling $851.1 million and $1.0 billion as of June 30, 2024, and December 31, 2023, respectively, through the Federal Reserve discount window. The Bank has not yet drawn on either of the lines of credit as of the date of this report.

Sale of Leesville Banking Center

On August 31, 2023, we sold the Leesville banking center, located in Leesville, Louisiana, to Merchants & Farmers Bank & Trust Company headquartered in Leesville, Louisiana, in accordance with the Branch Purchase and Assumption Agreement dated May 11, 2023. We maintained the loan portfolio and transferred those loans to other nearby banking centers. The sale included total deposits of $16.3 million and a pre-tax gain of $945,000.

Acquisition of Waterstone LSP, LLC ("Waterstone")

On January 31, 2024, we consummated the acquisition, through b1BANK, of Waterstone, headquartered in Katy, Texas. Waterstone offers community banks and small businesses a range of SBA lending services including planning, pre-qualification, packaging, closing and disbursements, servicing, and liquidations. Upon consummation of the acquisition, we paid $3.3 million in cash to the former owners of Waterstone.

Acquisition of Oakwood Bancshares, Inc. ("Oakwood")

On April 25, 2024, we, and Oakwood Bancshares, Inc. a Texas corporation ("Oakwood"), entererd into an Agreement and Plan of Reorganization, providing for the acquisition by us, of Oakwood. Oakwood had $839.7 million of total assets, including $726.6 million of deposits and $675.6 million of loans, as of March 31, 2024.

Financial Highlights

The financial highlights as of and for the six months ended June 30, 2024, include:

- **Total assets** of $6.7 billion, a $119.3 million, or 1.8%, increase from December 31, 2023.
- **Total loans held for investment** of $5.2 billion, a $170.1 million, or 3.4%, increase from December 31, 2023.
- **Total deposits** of $5.6 billion, a $314.9 million, or 6.0%, increase from December 31, 2023.
- **Net income available to common shareholders** of $28.1 million for the six months ended June 30, 2024, a $4.0 million, or 12.4%, decrease from the six months ended June 30, 2023.
- **Net interest income** of $105.5 million for the six months ended June 30, 2024, a decrease of $535,000, or 0.5%, from the six months ended June 30, 2023.
- **Allowance for credit losses** of 0.86% of total loans held for investment, compared to 0.88% as of December 31, 2023, and a ratio of nonperforming loans to total loans held for investment of 0.43%, compared to 0.34% as of December 31, 2023.

- **Earnings per common share** for the first six months of 2024 of $1.11 per basic common share and $1.10 per diluted common share, compared to $1.28 per basic common share and $1.27 per diluted common share for the first six months of 2023.

- **Return on average assets** of 0.84% over the first six months of 2024, compared to 1.04% for the first six months of 2023.

- **Return on average common equity** of 9.73% over the first six months of 2024, compared to 12.39% for the first six months of 2023.

- **Capital ratios** for Tier 1 Leverage, Common Equity Tier 1, Tier 1 Risk-based and Total Risk-based Capital of 9.49%, 9.29%, 10.57% and 12.88%, respectively, compared to 9.52%, 9.15%, 10.46% and 12.85% at December 31, 2023.

- **Book value per common share** of $23.24, an increase of 2.9% from $22.58 at December 31, 2023.

Results of Operations for the Three and Six Months Ended June 30, 2024, and 2023

Performance Summary

For the three months ended June 30, 2024, net income available to common shareholders was $15.9 million, or $0.63 per basic common share and $0.62 per diluted common share, compared to net income of $18.4 million, or $0.73 per basic and diluted common share, for the three months ended June 30, 2023. Return on average assets, on an annualized basis, decreased to 0.95% for the three months ended June 30, 2024, from 1.18% for the three months ended June 30, 2023. Return on average equity, on an annualized basis, decreased to 10.94% for the three months ended June 30, 2024, as compared to 13.99% for the three months ended June 30, 2023.

For the six months ended June 30, 2024, net income available to common shareholders was $28.1 million, or $1.11 per basic common share and $1.10 per diluted common share, compared to net income of $32.1 million, or $1.28 per basic common share and $1.27 per diluted common share, for the six months ended June 30, 2023. Return on average assets, on an annualized basis, decreased to 0.84% for the six months ended June 30, 2024, from 1.04% for the six months ended June 30, 2023. Return on average equity, on an annualized basis, decreased to 9.73% for the six months ended June 30, 2024, as compared to 12.39% for the six months ended June 30, 2023.

Net Interest Income

Our operating results depend primarily on our net interest income, calculated as the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Fluctuations in market interest rates impact the yield and rates paid on interest sensitive assets and liabilities. Changes in the amount and type of interest-earning assets and interest-bearing liabilities also impact net interest income. The variance driven by the changes in the amount and mix of interest-earning assets and interest-bearing liabilities is referred to as a “volume change.” Changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds are referred to as a “rate change.”

To evaluate net interest income, we measure and monitor (1) yields on our loans and other interest-earning assets, (2) the costs of our deposits and other funding sources, (3) our net interest spread and (4) our net interest margin. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is calculated as net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and shareholders’ equity also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources. We calculate average assets, liabilities, and equity using a daily average, and average yield/rate utilizing an actual day count convention.

For the three months ended June 30, 2024, net interest income totaled $54.0 million, and net interest margin and net interest spread were 3.45% and 2.47%, respectively, compared to $53.3 million, 3.63%, and 2.75%, respectively, for the three months ended June 30, 2023. The average yield on the loan portfolio was 7.07% for the three months ended June 30, 2024, compared to 6.54% for the three months ended June 30, 2023, and the average yield on total interest-earning assets was 6.38% for the three months ended June 30, 2024, compared to 5.84% for the three months ended June 30, 2023. For the three months ended June 30, 2024, overall cost of funds (which includes noninterest-bearing deposits) increased 76 basis points compared to the three months ended June 30, 2023, primarily due to the Federal Reserve increasing rates during 2023.

For the six months ended June 30, 2024, net interest income totaled $105.5 million, and net interest margin and net interest spread were 3.39% and 2.42%, respectively, compared to $106.1 million, 3.69%, and 2.85%, respectively, for the six months ended June 30, 2023. The average yield on the loan portfolio was 6.97% for the six months ended June 30, 2024, compared to 6.44% for the six months ended June 30, 2023, and the average yield on total interest-earning assets was 6.28% for the six months ended June 30, 2024, compared to 5.75% for the six months ended June 30, 2023. For the six months ended June 30, 2024, overall cost of funds (which includes noninterest-bearing deposits) increased 88 basis points compared to the six months ended June 30, 2023, primarily due to the Federal Reserve increasing rates during 2023.

The following tables present, for the periods indicated, an analysis of net interest income by each major category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding and the interest earned or paid on such amounts. The table also sets forth the average rate earned on interest-earning assets, the average rate paid on interest-bearing liabilities, and the net interest margin on average total interest-earning assets for the same periods. Interest earned on loans that are classified as nonaccrual is not recognized in income; however, the balances are reflected in average outstanding balances for the period. For the three and six months ended June 30, 2024, and 2023, interest income not recognized on nonaccrual loans was not material. Any nonaccrual loans have been included in the table as loans carrying a zero yield. The average total loans reflected below are net of deferred loan fees and discounts. Acquired loans were recorded at fair value at acquisition and accrete/amortize discounts and premiums as an adjustment to yield. Averages presented in the tables below, and throughout this report, are month-end averages.

	For the Three Months Ended June 30,					
	2024			2023		
	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	$ 5,153,642	$ 90,604	7.07%	$ 4,861,783	$ 79,223	6.54%
Securities	891,384	5,933	2.68	916,421	5,097	2.23
Interest-bearing deposits in other banks	246,590	3,333	5.44	117,086	1,528	5.23
Total interest-earning assets	6,291,616	99,870	6.38	5,895,290	85,848	5.84
Allowance for loan losses	(41,450)			(42,010)		
Noninterest-earning assets	461,007			421,376		
Total assets	$ 6,711,173	$ 99,870		$ 6,274,656	$ 85,848	
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 4,268,207	$ 40,900	3.85%	$ 3,405,221	$ 23,680	2.79%
Subordinated debt	99,913	1,354	5.45	108,619	1,251	4.62
Subordinated debt - trust preferred securities	5,000	113	9.09	5,000	108	8.66
Bank Term Funding Program	-	-	-	384,816	4,309	4.49
Advances from FHLB	324,691	3,372	4.18	298,324	3,038	4.08
Other borrowings	19,164	122	2.56	22,109	136	2.47
Total interest-bearing liabilities	4,716,975	45,861	3.91	4,224,089	32,522	3.09
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	1,297,085			1,410,983		
Other liabilities	41,999			40,329		
Total noninterest-bearing liabilities	1,339,084			1,451,312		
Shareholders' equity:						
Common shareholders' equity	583,184			527,325		
Preferred equity	71,930			71,930		
Total shareholders' equity	655,114			599,255		
Total liabilities and shareholders' equity	$ 6,711,173			$ 6,274,656		
Net interest rate spread (1)			2.47%			2.75%
Net interest income		$ 54,009			$ 53,326	
Net interest margin (2)			3.45%			3.63%
Overall cost of funds			3.07%			2.31%

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

	For the Six Months Ended June 30,					
	2024			2023		
	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	$ 5,090,289	$ 176,551	6.97%	$ 4,790,843	$ 152,991	6.44%
Securities	890,158	11,532	2.61	921,958	9,879	2.16
Interest-bearing deposits in other banks	288,426	7,798	5.44	87,282	2,470	5.71
Total interest-earning assets	6,268,873	195,881	6.28	5,800,083	165,340	5.75
Allowance for loan losses	(40,988)			(41,772)		
Noninterest-earning assets	461,465			440,549		
Total assets	$ 6,689,350	$ 195,881		$ 6,198,860	$ 165,340	
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 4,170,406	$ 78,929	3.81%	$ 3,372,358	$ 42,608	2.55%
Subordinated debt	99,942	2,710	5.45	109,634	2,640	4.86
Subordinated debt - trust preferred securities	5,000	226	9.09	5,000	206	8.31
Bank Term Funding Program	130,220	2,788	4.31	207,411	4,689	4.56
Advances from FHLB	274,096	5,466	4.01	410,348	8,880	4.36
Other borrowings	17,640	222	2.53	21,502	242	2.27
Total interest-bearing liabilities	4,697,304	90,341	3.87	4,126,253	59,265	2.90
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	1,289,948			1,442,084		
Other liabilities	49,754			36,601		
Total noninterest-bearing liabilities	1,339,702			1,478,685		
Shareholders' equity:						
Common shareholders' equity	580,414			521,992		
Preferred equity	71,930			71,930		
Total shareholders' equity	652,344			593,922		
Total liabilities and shareholders' equity	$ 6,689,350			$ 6,198,860		
Net interest rate spread (1)			2.42%			2.85%
Net interest income		$ 105,540			$ 106,075	
Net interest margin (2)			3.39%			3.69%
Overall cost of funds			3.03%			2.15%

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

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

	For the Three Months Ended June 30, 2024 compared to the Three Months Ended June 30, 2023		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands) (Unaudited)		
Interest-earning assets:			
Total loans	$ 5,131	$ 6,250	$ 11,381
Securities	(167)	1,003	836
Interest-bearing deposits in other banks	1,750	55	1,805
Total increase in interest income	$ 6,714	$ 7,308	$ 14,022
Interest-bearing liabilities:			
Interest-bearing deposits	$ 8,270	$ 8,950	$ 17,220
Subordinated debt	(118)	221	103
Subordinated debt - trust preferred securities	-	5	5
Bank Term Funding Program	-	(4,309)	(4,309)
Advances from FHLB	274	60	334
Other borrowings	(19)	5	(14)
Total increase in interest expense	$ 8,407	$ 4,932	$ 13,339
Increase (decrease) in net interest income	$ (1,693)	$ 2,376	$ 683

	For the Six Months Ended June 30, 2024 compared to the Six Months Ended June 30, 2023		
	Increase (Decrease) due to change in		
	Volume	Rate	Total
	(Dollars in thousands) (Unaudited)		
Interest-earning assets:			
Total loans	$ 10,386	$ 13,174	$ 23,560
Securities	(412)	2,065	1,653
Interest-bearing deposits in other banks	5,438	(110)	5,328
Total increase in interest income	$ 15,412	$ 15,129	$ 30,541
Interest-bearing liabilities:			
Interest-bearing deposits	$ 15,104	$ 21,217	$ 36,321
Subordinated debt	(263)	333	70
Subordinated debt - trust preferred securities	-	20	20
Bank Term Funding Program	(1,653)	(248)	(1,901)
Advances from FHLB	(2,717)	(697)	(3,414)
Other borrowings	(49)	29	(20)
Total increase in interest expense	$ 10,422	$ 20,654	$ 31,076
Increase (decrease) in net interest income	$ 4,990	$ (5,525)	$ (535)

Provision for Credit Losses

Our provision for credit losses is a charge to income in order to bring our allowance for credit losses to a level deemed appropriate by management. For a description of the factors taken into account by management in determining the allowance for credit losses see "—*Financial Condition—Allowance for Credit Losses*." The provision for credit losses was $1.3 million for the three months ended June 30, 2024, and $538,000 for the same period in 2023. For the six months ended June 30, 2024, and 2023, the provision for credit losses was $2.5 million and $3.8 million, respectively. The higher provision for the three months ended June 30, 2024, compared to the same period in 2023 relates primarily to higher net charge-offs in the current period, caused primarily by the resolution of two commercial relationships totaling $613,000 of net charge-offs. The lower provision for the six months ended June 30, 2024, compared to the same period in 2023 relates primarily to an improved macro-economic and market outlook in the current six-month period. Additionally, net charge-offs were elevated during the six months ended June 30, 2023 due to the resolution of certain acquired credit deteriorated loans.

Noninterest Income ("Other Income")

Our primary sources of noninterest income are service charges on deposit accounts, debit card and automated teller machine ("ATM") fee income, income from bank-owned life insurance, fees and brokerage commissions and pass-through income from other investments (small business investment company ("SBIC") partnerships and fintech technology ("Fintech") funds. The following tables present, for the periods indicated, the major categories of noninterest income:

	For the Three Months Ended June 30,		
	2024	2023	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Noninterest income:			
Service charges on deposit accounts	$ 2,537	$ 2,413	$ 124
Debit card and ATM fee income	1,950	1,646	304
Bank-owned life insurance income	627	547	80
Gain on sales of loans	2,460	494	1,966
Loss on sales of investment securities	-	(61)	61
Fees and brokerage commissions	1,875	1,791	84
Mortgage origination income	35	56	(21)
Correspondent bank income	218	94	124
Gain on sales of other real estate owned	2	14	(12)
Gain on extinguishment of debt	-	941	(941)
Swap fee income	285	7	278
Pass-through income from other investments	392	2,812	(2,420)
Other	1,795	1,204	591
Total noninterest income	$ 12,176	$ 11,958	$ 218

	For the Six Months Ended June 30,		
	2024	2023	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Noninterest income:			
Service charges on deposit accounts	$ 4,976	$ 4,694	$ 282
Debit card and ATM fee income	3,726	3,216	510
Bank-owned life insurance income	1,206	1,071	135
Gain on sales of loans	2,599	1,105	1,494
Loss on sales of investment securities	(1)	(62)	61
Fees and brokerage commissions	3,812	3,604	208
Mortgage origination income	104	130	(26)
Correspondent bank income	414	131	283
Gain on sales of other real estate owned	65	223	(158)
Gain on extinguishment of debt	-	941	(941)
Swap fee income	514	13	501
Pass-through income from other investments	686	2,985	(2,299)
Other	3,461	2,295	1,166
Total noninterest income	$ 21,562	$ 20,346	$ 1,216

Total noninterest income increased $218,000, or 1.8%, for the three months ended June 30, 2024 from the same period in 2023. The increase is primarily due to the increases in the gains on sales of loans of $2.0 million, other income of $744,000, debit card and ATM fee income of $304,000 and swap fee income of $278,000, offset with the gain on the extinguishment of debt of $941,000 which occurred in the same period in 2023 and $2.4 million less in pass-through income from other investments from the same period in 2023.

Total noninterest income increased $1.2 million, or 6.0%, for the six months ended June 30, 2024 from the same period in 2023. The increase is primarily due to the increases in the gains on sales of loans of $1.5 million, other income of $1.4 million and swap fee income of $501,000, offset with the gain on the extinguishment of debt of $941,000 which occurred in the same period in 2023 and $2.3 million less in pass-through income from other investments from the same period in 2023.

Noninterest Expense ("Other Expense")

Generally, noninterest expense is composed of all employee expenses and costs associated with operating our facilities, obtaining and retaining customer relationships, and providing bank services. The largest component of noninterest expense is salaries and employee benefits. Noninterest expense also includes operational expenses, such as occupancy expenses, depreciation and amortization, professional and regulatory fees, including Federal Deposit Insurance Corporation ("FDIC") assessments, data processing expenses, and advertising and promotion expenses, among others.

The following tables present, for the periods indicated, the major categories of noninterest expense:

	For the Three Months Ended June 30,		
	2024	2023	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Salaries and employee benefits	$ 25,523	$ 22,339	$ 3,184
Non-staff expenses:			
Occupancy of bank premises	2,634	2,406	228
Depreciation and amortization	1,742	1,720	22
Data processing	2,641	3,035	(394)
FDIC assessment fees	874	1,092	(218)
Legal and professional fees	1,042	961	81
Advertising and promotions	966	1,226	(260)
Utilities and communications	718	720	(2)
Ad valorem shares tax	900	965	(65)
Directors' fees	268	270	(2)
Other real estate owned expenses and write-downs	71	39	32
Merger and conversion related expenses	409	68	341
Other	5,322	4,861	461
Total noninterest expense	$ 43,110	$ 39,702	$ 3,408

	For the Six Months Ended June 30,		
	2024	2023	Increase (Decrease)
	(Dollars in thousands) (Unaudited)		
Salaries and employee benefits	$ 50,939	$ 45,515	$ 5,424
Non-staff expenses:			
Occupancy of bank premises	5,148	4,703	445
Depreciation and amortization	3,418	3,430	(12)
Data processing	5,220	4,520	700
FDIC assessment fees	1,702	2,025	(323)
Legal and professional fees	1,908	1,574	334
Advertising and promotions	2,111	2,374	(263)
Utilities and communications	1,392	1,441	(49)
Ad valorem shares tax	1,800	1,930	(130)
Directors' fees	550	539	11
Other real estate owned expenses and write-downs	108	169	(61)
Merger and conversion related expenses	749	171	578
Other	10,587	9,990	597
Total noninterest expense	$ 85,632	$ 78,381	$ 7,251

For the three months ended June 30, 2024, total noninterest expense increased $3.4 million, or 8.6%, from the three months ended June 30, 2023, primarily attributed to the increase in salaries and employee benefits of $3.2 million, or 14.3%.

For the six months ended June 30, 2024, total noninterest expense increased $7.3 million, or 9.3%, from the six months ended June 30, 2023, primarily attributed to the increase in salaries and employee benefits of $5.4 million, or 11.9%.

Income Tax Expense

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

For the three months ended June 30, 2024, income tax expense totaled $4.6 million, a decrease of $746,000, or 14.1%, compared to $5.3 million for the same period in 2023. Our effective tax rates for the three months ended June 30, 2024, and 2023 were 21.0% and 21.2%, respectively.

For the six months ended June 30, 2024, income tax expense totaled $8.2 million, a decrease of $1.3 million, or 13.9%, compared to $9.5 million for the same period in 2023. Our effective tax rates for the six months ended June 30, 2024, and 2023 were 21.0% and 21.5%, respectively.

Financial Condition

Our total assets increased $119.3 million, or 1.8%, from December 31, 2023, to June 30, 2024, due primarily from the increase in our loan portfolio.

Loan Portfolio

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

As of June 30, 2024, total loans, excluding mortgage loans held for sale, were $5.2 billion, an increase of $170.1 million, or 3.4%, compared to $5.0 billion as of December 31, 2023. Additionally, $680,000, and $835,000 in loans were classified as loans held for sale as of June 30, 2024, and December 31, 2023, respectively.

Total loans held for investment as a percentage of total deposits were 92.8% and 95.1% as of June 30, 2024, and December 31, 2023, respectively. Total loans held for investment as a percentage of total assets were 77.0% and 75.8% as of June 30, 2024, and December 31, 2023, respectively.

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

	As of June 30, 2024 (Unaudited)		As of December 31, 2023	
	Amount	**Percent**	**Amount**	**Percent**
	(Dollars in thousands)			
Real Estate Loans:				
Commercial	$ 2,198,119	42.6%	$ 2,217,928	44.4%
Construction	637,466	12.3	669,798	13.4
Residential	743,876	14.4	682,394	13.7
Total Real Estate Loans	3,579,461	69.3	3,570,120	71.5
Commercial	1,520,392	29.5	1,358,838	27.2
Consumer and Other	62,999	1.2	63,827	1.3
Total loans held for investment	$ 5,162,852	100.0%	$ 4,992,785	100.0%

Real Estate: Commercial loans are extensions of credit secured by owner-occupied and non-owner-occupied collateral. Repayment is generally dependent on the successful operations of the property. General economic conditions may impact the performance of these types of loans, including fluctuations in the value of real estate, vacancy rates, and unemployment trends. Real estate commercial loans also include farmland loans that can be, or are, used for agricultural purposes. These loans are usually repaid through refinancing, cash flow from the borrower's ongoing operations, development of the property, or sale of the property.

Real Estate: Commercial loans decreased $19.8 million or 0.9%, remaining at $2.2 billion as of June 30, 2024.

Real Estate: Construction loans include loans to small-to-midsized businesses to construct owner-occupied properties, loans to developers of commercial real estate investment properties and residential developments and, to a lesser extent, loans to individual clients for construction of single-family homes in our market areas. Risks associated with these loans include fluctuations in the value of real estate, project completion risk and changes in market trends. We are also exposed to risk based on the ability of the construction loan borrower to finance the loan or sell the property upon completion of the project, which may be affected by changes in secondary market terms and criteria for permanent financing since the time we funded the loan.

Real Estate: Construction loans decreased $32.3 million, or 4.8%, to $637.5 million as of June 30, 2024, from $669.8 million as of December 31, 2023.

Real Estate: Residential loans include first and second lien 1-4 family mortgage loans, as well as home equity lines of credit, in each case primarily on owner-occupied primary residences. The Company is exposed to risk based on fluctuations in the value of the real estate collateral securing the loan, as well as changes in the borrower's financial condition, which could be affected by numerous factors, including divorce, job loss, illness, or other personal hardship. Real estate residential loans also include multi-family residential loans originated to provide permanent financing for multi-family residential income producing properties. Repayment of these loans primarily relies on successful rental and management of the property.

Real Estate: Residential loans increased $61.5 million, or 9.0%, to $743.9 million as of June 30, 2024, from $682.4 million as of December 31, 2023.

Commercial loans include general commercial and industrial, or C&I, loans, including commercial lines of credit, working capital loans, term loans, equipment financing, asset acquisition, expansion, and development loans, borrowing base loans, letters of credit and other loan products, primarily in the Company's target markets that are underwritten based on the borrower's ability to service the debt from income. Commercial loan risk is derived from the expectation that such loans generally are serviced principally from the operations of the business, and those operations may not be successful. Any interruption or discontinuance of operating cash flows from the business, which may be influenced by events not under the control of the borrower such as economic events and changes in governmental regulations, could materially affect the ability of the borrower to repay the loan.

Commercial loans increased $161.6 million, or 11.9%, to $1.5 billion as of June 30, 2024, from $1.4 billion as of December 31, 2023.

Consumer and other loans include a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans. The risk is based on changes in the borrower's financial condition, which could be affected by numerous factors, including divorce, job loss, illness or other personal hardship, and fluctuations in the value of the real estate or personal property securing the consumer loan, if any.

Consumer and other loans decreased $828,000, or 1.3%, to $63.0 million as of June 30, 2024, from $63.8 million as of December 31, 2023.

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

	As of June 30, 2024				
	One Year or Less	One Through Five Years	Five Through Fifteen Years	After Fifteen Years	Total
	(Dollars in thousands) (Unaudited)				
Real Estate Loans:					
Commercial	$ 248,039	$ 1,329,736	$ 539,078	$ 81,266	$ 2,198,119
Construction	318,430	264,527	37,380	17,129	637,466
Residential	101,555	432,719	139,908	69,694	743,876
Total Real Estate Loans	668,024	2,026,982	716,366	168,089	3,579,461
Commercial	628,426	640,081	247,708	4,177	1,520,392
Consumer and Other	35,288	23,657	3,897	157	62,999
Total loans held for investment	$ 1,331,738	$ 2,690,720	$ 967,971	$ 172,423	$ 5,162,852
Fixed rate loans:					
Real Estate Loans:					
Commercial	$ 118,877	$ 1,117,278	$ 368,120	$ 13,810	$ 1,618,085
Construction	98,152	150,108	14,632	10,067	272,959
Residential	61,214	379,883	89,128	20,051	550,276
Total Real Estate Loans	278,243	1,647,269	471,880	43,928	2,441,320
Commercial	182,805	350,673	137,693	-	671,171
Consumer and Other	26,803	17,868	3,203	157	48,031
Total fixed rate loans	$ 487,851	$ 2,015,810	$ 612,776	$ 44,085	$ 3,160,522
Floating rate loans:					
Real Estate Loans:					
Commercial	$ 129,162	$ 212,458	$ 170,958	$ 67,456	$ 580,034
Construction	220,278	114,419	22,748	7,062	364,507
Residential	40,341	52,836	50,780	49,643	193,600
Total Real Estate Loans	389,781	379,713	244,486	124,161	1,138,141
Commercial	445,621	289,408	110,015	4,177	849,221
Consumer and Other	8,485	5,789	694	-	14,968
Total floating rate loans	$ 843,887	$ 674,910	$ 355,195	$ 128,338	$ 2,002,330

	As of December 31, 2023				
	One Year or Less	One Through Five Years	Five Through Fifteen Years	After Fifteen Years	Total
	(Dollars in thousands)				
Real Estate Loans:					
Commercial	$ 251,365	$ 1,256,655	$ 620,029	$ 89,879	$ 2,217,928
Construction	325,883	278,039	45,910	19,966	669,798
Residential	79,357	401,852	137,283	63,902	682,394
Total Real Estate Loans	656,605	1,936,546	803,222	173,747	3,570,120
Commercial	520,058	594,274	243,744	762	1,358,838
Consumer and Other	35,971	23,520	4,134	202	63,827
Total loans held for investment	$ 1,212,634	$ 2,554,340	$ 1,051,100	$ 174,711	$ 4,992,785
Fixed rate loans:					
Real Estate Loans:					
Commercial	$ 156,227	$ 1,067,124	$ 450,884	$ 17,470	$ 1,691,705
Construction	96,020	187,970	16,388	13,866	314,244
Residential	49,434	344,549	85,731	14,952	494,666
Total Real Estate Loans	301,681	1,599,643	553,003	46,288	2,500,615
Commercial	134,242	331,029	147,388	-	612,659
Consumer and Other	26,867	17,373	3,260	159	47,659
Total fixed rate loans	$ 462,790	$ 1,948,045	$ 703,651	$ 46,447	$ 3,160,933
Floating rate loans:					
Real Estate Loans:					
Commercial	$ 95,138	$ 189,531	$ 169,145	$ 72,409	$ 526,223
Construction	229,863	90,069	29,522	6,100	355,554
Residential	29,923	57,303	51,552	48,950	187,728
Total Real Estate Loans	354,924	336,903	250,219	127,459	1,069,505
Commercial	385,816	263,245	96,356	762	746,179
Consumer and Other	9,104	6,147	874	43	16,168
Total floating rate loans	$ 749,844	$ 606,295	$ 347,449	$ 128,264	$ 1,831,852

Nonperforming Assets

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

We have several procedures in place to assist in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our bankers, and we also monitor our delinquency levels for any negative or adverse trends. There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

We believe our conservative lending approach and focused management of nonperforming assets has resulted in sound asset quality and the timely resolution of problem assets. We had $24.3 million and$18.8 million in nonperforming assets as of June 30, 2024, and December 31, 2023, respectively. We had $22.4 million in nonperforming loans as of June 30, 2024, compared to $17.1 million as of December 31, 2023. The increase in nonperforming assets from December 31, 2023, to June 30, 2024, is primarily due to two lending relationships secured by residential real estate and one commercial loan that is unsecured.

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

	As of June 30, 2024 (Unaudited)	As of December 31, 2023
	(Dollars in thousands)	
Nonaccrual loans	$ 21,008	$ 16,943
Accruing loans 90 or more days past due	1,355	127
Total nonperforming loans	22,363	17,070
Other nonperforming assets	-	-
Other real estate owned:		
Commercial real estate, construction, land and land development	1,691	1,326
Residential real estate	292	359
Total other real estate owned	1,983	1,685
Total nonperforming assets	$ 24,346	$ 18,755
Ratio of nonperforming loans to total loans held for investment	0.43%	0.34%
Ratio of nonperforming assets to total assets	0.36	0.28
Ratio of nonaccrual loans to total loans held for investment	0.41	0.34

	As of June 30, 2024 (Unaudited)	As of December 31, 2023
	(Dollars in thousands)	
Nonaccrual loans by category:		
Real Estate Loans:		
Commercial	$ 2,865	$ 3,280
Construction	6,234	3,543
Residential	6,830	7,352
Total Real Estate Loans	15,929	14,175
Commercial	4,475	2,395
Consumer and Other	604	373
Total	$ 21,008	$ 16,943

Potential Problem Loans

From a credit risk standpoint, we classify loans in one of four categories: pass, special mention, substandard or doubtful. Loans classified as loss are charged-off. The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. Ratings are adjusted to reflect the degree of risk and loss that is believed to be inherent in each credit. Our methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk of loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk of loss).

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

Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits with a lower rating.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses which exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful have all the weaknesses inherent in those rated substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following tables summarize our internal ratings of loans held for investment as of the dates indicated. See Note 6 of the consolidated financial statements for the presentation of loans in their credit quality categories that is in compliance with the CECL standard.

	As of June 30, 2024				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands) (Unaudited)				
Real Estate Loans:					
Commercial	$ 2,144,730	$ 43,091	$ 9,239	$ 1,059	$ 2,198,119
Construction	626,279	4,088	7,099	-	637,466
Residential	731,511	2,710	9,295	360	743,876
Total Real Estate Loans	3,502,520	49,889	25,633	1,419	3,579,461
Commercial	1,483,339	13,467	23,008	578	1,520,392
Consumer and Other	62,271	-	728	-	62,999
Total	$ 5,048,130	$ 63,356	$ 49,369	$ 1,997	$ 5,162,852

	As of December 31, 2023				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Real Estate Loans:					
Commercial	$ 2,188,840	$ 18,658	$ 9,163	$ 1,267	$ 2,217,928
Construction	661,796	4,087	3,570	345	669,798
Residential	669,391	3,161	9,353	489	682,394
Total Real Estate Loans	3,520,027	25,906	22,086	2,101	3,570,120
Commercial	1,338,339	14,623	5,308	568	1,358,838
Consumer and Other	63,265	100	462	-	63,827
Total	$ 4,921,631	$ 40,629	$ 27,856	$ 2,669	$ 4,992,785

Allowance for Credit Losses

We maintain an allowance for credit losses, which includes both our allowance for loan losses and reserves for unfunded commitments, that represents management's best estimate of the credit losses and risks inherent in the loan portfolio. In determining the allowance for credit losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for credit losses is based on internally assigned risk classifications of loans, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical credit loss rates. For additional information, see Note 6 to the consolidated financial statements.

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

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

- for Real Estate: Construction loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease, the quality and nature of contracts for presale or prelease, if any, the experience and ability of the developer, and the loan to value ratio;

- for Real Estate: Residential real estate loans, the borrower's ability to repay the loan, including a consideration of the debt to income ratio and employment and income stability, the loan to value ratio, and the age, condition and marketability of the collateral; and

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

As of June 30, 2024, the allowance for credit losses totaled $44.5 million, or 0.86%, of total loans held for investment. As of December 31, 2023, the allowance for credit losses totaled $43.7 million, or 0.88%, of total loans held for investment.

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

	As of and For the Six Months Ended June 30, 2024 (Unaudited)	As of and For the Year Ended December 31, 2023
	(Dollars in thousands)	
Average loans outstanding	$ 5,090,289	$ 4,859,637
Gross loans held for investment outstanding end of period	$ 5,162,852	$ 4,992,785
Allowance for credit losses at beginning of period	$ 43,738	$ 38,783
Adoption of ASU 2016-13	-	5,857
Provision for credit losses	2,496	4,483
Charge-offs:		
Real Estate:		
Commercial	(9)	2,049
Construction	60	36
Residential	283	42
Total Real Estate	334	2,127
Commercial	682	2,813
Consumer and other	943	1,489
Total charge-offs	1,959	6,429
Recoveries:		
Real Estate:		
Commercial	10	26
Construction	-	1
Residential	5	18
Total Real Estate	15	45
Commercial	58	672
Consumer and other	159	327
Total recoveries	232	1,044
Net charge-offs	1,727	5,385
Allowance for credit losses at end of period	$ 44,507	$ 43,738
Ratio of allowance for credit losses to end of period loans held for investment	0.86%	0.88%
Ratio of net charge-offs to average loans	0.03	0.11
Ratio of allowance for credit losses to nonaccrual loans	211.86	258.15

	As of and For the Six Months Ended June 30, 2024 (Unaudited)		As of and For the Year Ended December 31, 2023		As of and For the Six Months Ended June 30, 2023 (Unaudited)	
	Net Charge-offs (Recoveries)	Percent of Average Loans	Net Charge-offs (Recoveries)	Percent of Average Loans	Net Charge-offs (Recoveries)	Percent of Average Loans
	(Dollars in thousands)					
Real estate:						
Commercial	$ (19)	0.00%	$ 2,023	0.04%	$ 1,811	0.04%
Construction	60	0.00%	35	0.00%	1	0.00%
Residential	278	0.01%	24	0.00%	35	0.00%
Total Real Estate Loans	319	0.01%	2,082	0.04%	1,847	0.04%
Commercial	624	0.01%	2,141	0.05%	291	0.01%
Consumer and Other	784	0.01%	1,162	0.02%	622	0.01%
Total net charge-offs (recoveries)	$ 1,727	0.03%	$ 5,385	0.11%	$ 2,760	0.06%

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

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

	As of June 30, 2024 (Unaudited)		As of December 31, 2023		As of June 30, 2023 (Unaudited)	
	Amount	Percent to Total	Amount	Percent to Total	Amount	Percent to Total
	(Dollars in thousands)					
Real estate:						
Commercial	$ 17,865	40.1%	$ 17,882	40.9%	$ 18,448	40.4%
Construction	6,982	15.7	8,142	18.6	10,019	22.0
Residential	6,270	14.1	5,662	12.9	5,484	12.0
Total real estate	31,117	69.9	31,686	72.4	33,951	74.4
Commercial	12,902	29.0	11,796	27.0	11,258	24.7
Consumer and Other	488	1.1	256	0.6	431	0.9
Total allowance for credit losses	$ 44,507	100.0%	$ 43,738	100.0%	$ 45,640	100.0%

Securities

We use our securities portfolio to provide a source of liquidity, an appropriate return on funds invested, manage interest rate risk, meet collateral requirements, and meet regulatory capital requirements. As of June 30, 2024, the carrying amount of investment securities totaled $875.0 million, a decrease of $4.5 million, or 0.5%, compared to $879.6 million as of December 31, 2023. The decrease was primarily due to unrealized losses and paydowns in the first six months of 2024. Securities represented 13.1% and 13.4% of total assets as of June 30, 2024, and December 31, 2023, respectively.

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

	As of June 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands) (Unaudited)			
U.S. treasury securities	$ 17,661	$ -	$ 1,354	$ 16,307
U.S. government agencies	10,212	-	806	9,406
Corporate bonds	49,646	32	5,029	44,649
Mortgage-backed securities	567,000	929	48,906	519,023
Municipal securities	316,471	127	30,935	285,663
Total	$ 960,990	$ 1,088	$ 87,030	$ 875,048

	As of December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. treasury securities	$ 17,690	$ -	$ 1,451	$ 16,239
U.S. government agencies	10,258	-	848	9,410
Corporate bonds	49,609	-	5,770	43,839
Mortgage-backed securities	555,148	976	49,814	506,310
Municipal securities	331,273	298	27,798	303,773
Total	$ 963,978	$ 1,274	$ 85,681	$ 879,571

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, private label collateralized mortgage obligations, subprime, Alt-A, or second lien elements in our investment portfolio as of June 30, 2024.

The allowance for credit losses encompasses potential expected credit losses related to the securities portfolio. In order to develop an estimate of credit losses expected for the current securities portfolio, we perform an assessment that includes reviewing historical loss data for both our portfolio and similar types of investment securities. Additionally, our review of the securities portfolio for expected credit losses includes an evaluation of factors including the security issuer bond ratings, delinquency status, insurance or other available credit support, as well as our expectations of the forecasted economic outlook relevant to these securities. The results of the analysis are evaluated quarterly to confirm that credit loss estimates are appropriate for the securities portfolio. Based on our assessments, expected credit losses on the investment securities portfolio as of both June 30, 2024 and December 31, 2023, was negligible and therefore, no allowance for credit loss was recorded related to our investment securities.

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

	As of June 30, 2024									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands) (Unaudited)									
U.S. treasury securities	$ -	-%	$ 16,307	0.80%	$ -	-%	$ -	-%	$ 16,307	0.80%
U.S. government agencies	-	-%	9,406	0.92%	-	-%	-	-%	9,406	0.92%
Corporate bonds	208	-%	3,428	6.18%	41,013	4.48%	-	-%	44,649	4.59%
Mortgage-backed securities	4,121	0.69%	42,902	2.17%	185,253	2.83%	286,747	3.00%	519,023	2.85%
Municipal securities	21,848	1.43%	97,272	1.62%	109,234	1.93%	57,309	2.50%	285,663	1.90%
Total	$ 26,177	1.30%	$ 169,315	1.73%	$ 335,500	2.74%	$ 344,056	2.92%	$ 875,048	2.57%

	As of December 31, 2023									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
U.S. treasury securities	$ -	-%	$ 16,239	0.80%	$ -	-%	$ -	-%	$ 16,239	0.80%
U.S. government agencies	-	-%	9,410	0.92%	-	-%	-	-%	9,410	0.92%
Corporate bonds	213	-%	2,390	4.78%	41,236	4.61%	-	-%	43,839	4.60%
Mortgage-backed securities	147	1.28%	46,339	2.06%	191,332	2.68%	268,492	2.73%	506,310	2.65%
Municipal securities	16,766	1.56%	96,739	1.55%	117,092	1.91%	73,176	2.38%	303,773	1.89%
Total	$ 17,126	1.54%	$ 171,117	1.63%	$ 349,660	2.65%	$ 341,668	2.66%	$ 879,571	2.43%

The contractual maturity of mortgage-backed securities, collateralized mortgage obligations and asset-backed securities is not a reliable indicator of their expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities and asset-backed securities are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to prepay. Monthly paydowns on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal and, consequently, the average life of this security will be lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of this security. The weighted average life of our investment portfolio was 4.80 years with an estimated effective duration of 3.84 years as of June 30, 2024.

As of June 30, 2024, and December 31, 2023, we did not own securities of any one issuer for which aggregate adjusted cost exceeded 10% of our consolidated shareholders' equity as of such respective dates.

As of June 30, 2024, and December 31, 2023, the Company held other equity securities of $38.8 million and $33.9 million, respectively, comprised mainly of FHLB stock, small business investment companies ("SBICs") and financial technology ("Fintech") fund investments.

Deposits

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

Total deposits as of June 30, 2024, were $5.6 billion, an increase of $314.9 million, or 6.0%, compared to $5.2 billion as of December 31, 2023. Total uninsured deposits were $2.3 billion, or 40.7%, of total deposits as of June 30, 2024 compared to $2.0 billion, or 38.9%, of total deposits as of December 31, 2023. Since it is not reasonably practical to provide a precise measure of uninsured deposits, the amounts are estimated and are based on the same methodologies and assumptions that are used for regulatory reporting requirements for the call report.

Noninterest-bearing deposits as of June 30, 2024, were $1.3 billion compared to $1.3 billion as of December 31, 2023, an increase of $11.1 million, or 0.9%.

Average deposits for the six months ended June 30, 2024, were $5.5 billion, an increase of $481.2 million, or 9.7%, over the full year average for the year ended December 31, 2023, of $5.0 billion. The average rate paid on total interest-bearing deposits increased over this period from 3.00% for the year ended December 31, 2023, to 3.81% for the six months ended June 30, 2024. The increase in average rates was driven by the Federal Reserve raising rates during the year ended December 31, 2023 and consumer demand for higher earning interest bearing accounts. The cost of deposits increased to 2.91% for the six months ended June 30, 2024, compared to 2.15% for the year ended December 31, 2023.

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

	For the Six Months Ended June 30, 2024 (Unaudited)		**For the Year Ended December 31, 2023**	
	Average Balance	**Average Rate**	**Average Balance**	**Average Rate**
	(Dollars in thousands)			
Interest-bearing demand accounts	$ 535,959	3.73%	$ 507,782	3.40%
Negotiable order of withdrawal ("NOW") accounts	458,239	1.94%	468,094	1.33%
Limited access money market accounts and savings	1,934,196	3.85%	1,441,836	2.77%
Certificates and other time deposits > $250k	614,620	4.62%	498,054	4.01%
Certificates and other time deposits ≤ $250k	627,392	4.31%	650,450	3.61%
Total interest-bearing deposits	4,170,406	3.81%	3,566,216	3.00%
Noninterest-bearing demand accounts	1,289,948	-%	1,412,979	-%
Total deposits	$ 5,460,354	2.91%	$ 4,979,195	2.15%

The ratio of average noninterest-bearing deposits to average total deposits for the six months ended June 30, 2024, and the year ended December 31, 2023, was 23.6% and 28.4%, respectively.

The following table sets forth the contractual maturities of certain certificates of deposit at June 30, 2024:

	Certificates of Deposit More Than $250,000	**Certificates of Deposit of $100,000 Through $250,000**
	(Dollars in thousands) (Unaudited)	
3 months or less	$ 150,684	$ 228,003
More than 3 months but less than 6 months	124,806	87,517
More than 6 months but less than 12 months	137,290	64,244
12 months or more	188,453	34,689
Total	$ 601,233	$ 414,453

Federal Funds Purchased Lines of Credit Relationships

We maintain Federal Funds Purchased Lines of Credit Relationships with the following correspondent banks and limits as of June 30, 2024:

	Fed Funds Purchase Limits
	(Dollars in thousands)
TIB National Association	$ 45,000
PNC Bank	38,000
FNBB	35,000
First Horizon Bank	17,000
ServisFirst Bank	10,000
Total	$ 145,000

We had no outstanding balances on these lines at June 30, 2024 and December 31, 2023.

Liquidity and Capital Resources

Liquidity

Liquidity involves our ability to utilize funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events. For the six months ended June 30, 2024, and the year ended December 31, 2023, liquidity needs were primarily met by core deposits, security and loan maturities, and amortizing investment and loan portfolios. In addition, we also utilize, or have available, brokered deposits, purchased funds from correspondent banks, the Federal Reserve discount window, and overnight advances from the FHLB. As of June 30, 2024, and December 31, 2023, we maintained five federal funds purchased lines of credit with correspondent banks which provided for extensions of credit with an availability to borrow up to an aggregate of $145.0 million. There were no funds drawn under these lines of credit at June 30, 2024, and December 31, 2023. We had an additional $1.2 billion of availability through the FHLB at both June 30, 2024, and December 31, 2023. As of June 30, 2024 and December 31, 2023, we had $851.1 million and $1.0 billion, respectively, of availability through the Federal Reserve Discount Window.

The following table illustrates, during the periods presented, the mix of our funding sources and the average assets in which those funds are invested as a percentage of average total assets for the periods indicated. Average total assets equaled $6.7 billion and $6.3 billion for the six months ended June 30, 2024, and the year ended December 31, 2023, respectively.

	For the Six Months Ended June 30, 2024 (Unaudited)	For the Year Ended December 31, 2023
Source of Funds:		
Deposits:		
Noninterest-bearing	19.3%	22.3%
Interest-bearing	62.3	56.2
Subordinated debt (excluding trust preferred securities)	1.5	1.7
Advances from FHLB	4.1	5.2
Other borrowings	0.3	0.4
Bank Term Funding Program	2.0	4.0
Other liabilities	0.7	0.7
Shareholders' equity	9.8	9.5
Total	100.0%	100.0%
Uses of Funds:		
Loans, net of allowance for loan losses	75.5%	76.0%
Securities available for sale	13.3	14.2
Interest-bearing deposits in other banks	4.3	2.8
Other noninterest-earning assets	6.9	7.0
Total	100.0%	100.0%
Average noninterest-bearing deposits to average deposits	23.6%	28.4%
Average loans to average deposits	93.2	97.6

Our primary source of funds is deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future. Our average net loans increased 6.3% for the six months ended June 30, 2024, compared to the same period in 2023. We predominantly invest excess deposits in overnight deposits with the Federal Reserve, securities, interest-bearing deposits at other banks or other short-term liquid investments until needed to fund loan growth. Our securities portfolio had a weighted average life of 4.80 years and an effective duration of 3.84 years as of June 30, 2024. As of December 31, 2023, our securities portfolio had a weighted average life of 4.57 years and an effective duration of 3.81 years.

As of June 30, 2024, we had outstanding $1.2 billion in commitments to extend credit and $50.8 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2023, we had outstanding $1.2 billion in commitments to extend credit and $45.2 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. See "*Off Balance Sheet Items*" below for additional information.

As of June 30, 2024, and December 31, 2023 we had cash and cash equivalents, including federal funds sold, of $321.6 million and $377.2 million, respectively. We had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature for either period.

Capital Resources

Total shareholders' equity increased to $664.5 million as of June 30, 2024, compared to $644.3 million as of December 31, 2023, an increase of $20.3 million, or 3.1%. This increase was primarily due to net income of $30.8 million offset with other comprehensive losses of $1.2 million resulting from the after-tax effect of unrealized losses in our investment securities portfolio, and dividends paid on preferred stock and common stock of $9.9 million.

On July 25, 2024, our Board declared a quarterly dividend in the amount of $18.75 per preferred share to the preferred shareholders of record as of August 15, 2024. The dividend is to be paid on August 31, 2024, or as soon as practicable thereafter.

On July 25, 2024, our Board declared a quarterly dividend based upon our financial performance for the three months ended June 30, 2024, in the amount of $0.14 per common share to the common shareholders of record as of August 15, 2024. The dividend is to be paid on August 31, 2024, or as soon as practicable thereafter.

The declaration and payment of dividends to our shareholders, as well as the amounts thereof, are subject to the discretion of the Board and depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board. As a holding company, our ability to pay dividends is largely dependent upon the receipt of dividends from our subsidiary, b1BANK. There can be no assurance that we will declare and pay any dividends to our shareholders.

Capital management consists of providing equity to support current and future operations. Banking regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. We are subject to regulatory capital requirements at the holding company and bank levels. As of June 30, 2024, and December 31, 2023, we and b1BANK were in compliance with all applicable regulatory capital requirements, and b1BANK was classified as "well-capitalized," for purposes of prompt corrective action regulations. As we employ our capital and continue to grow our operations, our regulatory capital levels may decrease depending on our level of earnings. However, we expect to monitor and control our growth in order to remain in compliance with all applicable regulatory capital standards applicable to us.

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

	As of June 30, 2024 (Unaudited)		As of December 31, 2023	
	Amount	**Ratio**	**Amount**	**Ratio**
	(Dollars in thousands)			
Business First				
Total capital (to risk weighted assets)	$ 773,237	12.88%	$ 754,990	12.85%
Tier 1 capital (to risk weighted assets)	634,646	10.57%	614,975	10.46%
Common Equity Tier 1 capital (to risk weighted assets)	557,716	9.29%	538,045	9.15%
Tier 1 Leverage capital (to average assets)	634,646	9.49%	614,975	9.52%
b1BANK				
Total capital (to risk weighted assets)	$ 751,544	12.53%	$ 730,117	12.43%
Tier 1 capital (to risk weighted assets)	707,037	11.79%	686,379	11.69%
Common Equity Tier 1 capital (to risk weighted assets)	707,037	11.79%	686,379	11.69%
Tier 1 Leverage capital (to average assets)	707,037	10.59%	686,379	10.63%

FHLB Advances

Advances from the FHLB totaled approximately $305.2 million and $211.2 million at June 30, 2024 and December 31, 2023, respectively. As of June 30, 2024, and December 31, 2023, the FHLB advances were collateralized by a blanket floating lien on certain securities and loans, had a weighted average stated rate of 4.07% and 3.65%, respectively, and mature within ten years.

Bank Term Funding Program ("BTFP")

On March 12, 2023, the Federal Reserve launched the BTFP, which offered loans to banks with a term of up to one year. The loans were secured by pledging the banks' U.S. treasuries, agency securities, agency mortgage-backed securities, and any other qualifying assets. These pledged securities were valued at par for collateral purposes. The Bank participated in the BTFP and had outstanding debt of $300.0 million at December 31, 2023. The loans bore a fixed rate of 4.38% and matured on March 22, 2024, at which time we repaid them in full.

Contractual Obligations

The following tables summarize contractual obligations and other commitments to make future payments as of June 30, 2024, and December 31, 2023 (other than non-maturity deposit obligations), which consist of future cash payments associated with our contractual obligations pursuant to our FHLB advances, subordinated debt, revolving line of credit, and non-cancelable future operating leases. Payments related to leases are based on actual payments specified in underlying contracts. Advances from the FHLB totaled approximately $305.2 million and $211.2 million at June 30, 2024 and December 31, 2023, respectively. As of June 30, 2024, and December 31, 2023, the FHLB advances were collateralized by a blanket floating lien on certain securities and loans, had a weighted average stated rate of 4.07% and 3.65%, respectively, and mature within ten years. We participated in the BTFP in March 2023 and as of December 31, 2023, had outstanding debt of $300.0 million, at a fixed rate of 4.38% and set to mature on March 22, 2024. We repaid this debt in full at the time of maturity. The subordinated debt totaled $99.9 million and $100.0 million at June 30, 2024 and December 31, 2023, respectively, including premium. Of this subordinated debt, $25.0 million bears interest at a fixed rate of 6.75% through December 31, 2028 and a floating rate, based on a benchmark rate plus 369 basis points, thereafter through maturity in 2033, $52.5 million of this subordinated debt bears interest at a fixed rate of 4.25% through March 31, 2026 and a floating rate, based on a benchmark rate plus 354 basis points, thereafter through maturity in 2031, $3.9 million of this subordinated debt bears interest at a fixed rate of 4.75% through April 1, 2026 and a floating rate, based on a benchmark rate plus 442 basis points, thereafter through maturity in 2031. We acquired three separate notes as part of the TCBI acquisition totaling $26.4 million. Of those notes, $10.0 million bears an adjustable interest rate plus 350 basis points, based on a benchmark rate, adjusting quarterly until maturity on April 11, 2028, and callable beginning April 11, 2023, $7.5 million bears an adjustable interest rate plus 350 basis points, based on a benchmark rate, adjusting quarterly, until maturity on December 13, 2028, and callable beginning December 13, 2023, and $8.9 million, which was called on May 1, 2023 and ceased bearing interest as of such date. As part of valuing these three subordinated notes from TCBI, we incurred a fair value adjustment premium of $3.4 million that will accrete over five-to-seven years, with $948,000 and $1.1 million remaining at June 30, 2024 and December 31, 2023, respectively. We recognized $1.5 million in gains on the extinguishment of this debt during the year ended December 31, 2023.

	As of June 30, 2024				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands) (Unaudited)				
Non-cancelable future operating leases	$ 4,315	$ 7,239	$ 6,066	$ 4,231	$ 21,851
Time deposits	943,523	216,524	41,026	21	1,201,094
Subordinated debt	-	-	17,500	81,427	98,927
Advances from FHLB	875	129,333	100,000	75,000	305,208
Subordinated debt - trust preferred securities	-	-	-	5,000	5,000
Securities sold under agreements to repurchase	18,445	-	-	-	18,445
Standby and commercial letters of credit	24,278	25,960	581	-	50,819
Commitments to extend credit	639,497	318,369	125,603	107,191	1,190,660
Total	$ 1,630,933	$ 697,425	$ 290,776	$ 272,870	$ 2,892,004

	As of December 31, 2023				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Non-cancelable future operating leases	$ 4,429	$ 7,166	$ 6,426	$ 5,617	$ 23,638
Time deposits	1,027,366	238,222	35,490	21	1,301,099
Subordinated debt	-	-	17,500	81,427	98,927
Advances from FHLB	-	111,198	25,000	75,000	211,198
BTFP	300,000	-	-	-	300,000
Subordinated debt - trust preferred securities	-	-	-	5,000	5,000
Securities sold under agreements to repurchase	18,885	-	-	-	18,885
Standby and commercial letters of credit	43,704	927	546	-	45,177
Commitments to extend credit	625,521	330,138	106,171	112,477	1,174,307
Total	$ 2,019,905	$ 687,651	$ 191,133	$ 279,542	$ 3,178,231

Off-Balance Sheet Items

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

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

Standby and commercial letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, we have rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and/or marketable securities. The credit risk to us in issuing letters of credit is essentially the same as that involved in extending loan facilities to our customers.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. We evaluate each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by us, upon extension of credit, is based on management’s credit evaluation of the customer.

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is sensitivity to movement in interest rates. Our asset and liability management policy provides management with the guidelines for effective interest rate risk 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. 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 value of equity. The objective interest rate risk management is to measure the effect on net interest income and fair value of equity and to position the balance sheet to minimize the risk of losses and maximize the amount of income without taking on unnecessary earning volatility.

We seek to manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business; however, we may enter into derivative contracts to hedge interest rate risk if it is appropriate given our risk profile and policy guidelines. 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 ("ALCO") of b1BANK, in accordance with policies approved by our board of directors. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk which include an analysis of relationships between interest-earning assets and interest-bearing liabilities, and an interest rate shock simulation model.

We use interest rate risk simulation models and shock analysis to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. Contractual maturities and re-pricing opportunities of loans are incorporated in the model as prepayment assumptions, maturity data and optionality. Deposit assumptions such as repricing betas and non-maturity balance decay rates are also incorporated into the model. Model assumptions are revised and updated on a regular basis as directed by policy, and more frequently if conditions merit. 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, customer behavior, and the application and timing of various management strategies.

On at least a quarterly basis, we run simulation models to calculate potential impacts to net interest income and the fair value of equity. Specific details of the simulations are reflected in policy as directed by ALCO.

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

	As of June 30, 2024		As of December 31, 2023	
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	(0.34%)	(4.56%)	(5.50%)	(5.59%)
+200	(0.05%)	(2.87%)	(3.20%)	(3.47%)
+100	0.09%	(1.28%)	(1.10%)	(1.39%)
Base	-%	-%	-%	-%
-100	(0.23%)	0.84%	0.30%	1.40%
-200	(0.98%)	0.68%	0.50%	2.67%

The results of the simulations are primarily driven by the contractual characteristics of all balance sheet instruments and customer behavior.

Impact of Inflation

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

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

Non-GAAP Financial Measures

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

This discussion and analysis section includes certain non-GAAP financial measures (e.g., referenced as “core” or “tangible”) intended to supplement, not substitute for, comparable GAAP measures. These measures typically adjust income available to common shareholders for certain significant activities or transactions that in management’s opinion can distort period-to-period comparisons of Business First’s performance. Transactions that are typically excluded from non-GAAP measures include realized and unrealized gains/losses on former bank premises and equipment, gains/losses on sales of securities, and acquisition-related expenses (including, but not limited to, legal costs, system conversion costs, severance and retention payments, etc.). The measures also typically adjust goodwill and certain intangible assets from book value and shareholders’ equity.

Management believes presentations of these non-GAAP financial measures provide useful supplemental information that is essential to a proper understanding of the operating results of the Company’s core business. These non-GAAP disclosures are not necessarily comparable to non-GAAP measures that may be presented by other companies. You should understand how such other banking organizations calculate their financial metrics or with names similar to the non-GAAP financial measures we have discussed in this statement when comparing such non-GAAP financial measures.

Core Net Income. Core net income available to common shareholders, which excludes certain income and expenses, for the three months ended June 30, 2024, was $16.3 million, or $0.64 per diluted common share, compared to core net income available to common shareholders of $17.7 million, or $0.70 per diluted common share, for the three months ended June 30, 2023. Notable noncore events impacting earnings for the three months ended June 30, 2024, included $419,000 in acquisition-related expenses, compared to $941,000 in a gain on the extinguishment of debt due to the premium associated with the debt from the TCBI acquisition in 2022, which was attributed to the $5.7 million subordinated debt redemption, for the same period in 2023.

For the six months ended June 30, 2024, core net income available to common shareholders, was $29.1 million, or $1.14 per diluted common share, compared to core net income available to common shareholders of $31.5 million, or $1.25 per diluted common share, for the six months ended June 30, 2023. Notable noncore events impacting earnings for the six months ended June 30, 2024, included $50,000 in a gain on the sale of a former bank premises and $1.1 million in acquisition-related expenses, compared to $941,000 in a gain on the extinguishment of debt due to the premium associated with the debt from the TCBI acquisition in 2022, which was attributed to the $5.7 million subordinated debt redemption, and $171,000 in acquisition-related expenses for the same period in 2023.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
	(Dollars in thousands, except per share data) (Unaudited)			
Interest Income:				
Interest income	$ 99,870	$ 85,848	$ 195,881	$ 165,340
Core interest income	99,870	85,848	195,881	165,340
Interest Expense:				

Interest expense	45,861	32,522	90,341	59,265
Core interest expense	45,861	32,522	90,341	59,265
Provision for Credit Losses:				
Provision for credit losses	1,310	538	2,496	3,760
Core provision expense	1,310	538	2,496	3,760
Other Income:				
Other income	12,176	11,958	21,562	20,346
Gains on former bank premises and equipment	-	-	(50)	-
Losses on sale of securities	-	61	1	62
Gain on extinguishment of debt	-	(941)	-	(941)
Core other income	12,176	11,078	21,513	19,467
Other Expense:				
Other expense	43,110	39,702	85,632	78,381
Acquisition-related expenses (2)	(419)	(68)	(1,134)	(171)
Core other expense	42,691	39,634	84,498	78,210
Pre-Tax Income:				
Pre-tax income	21,765	25,044	38,974	44,280
Gains on former bank premises and equipment	-	-	(50)	-
Losses on sale of securities	-	61	1	62
Gain on extinguishment of debt	-	(941)	-	(941)
Acquisition-related expenses (2)	419	68	1,134	171
Core pre-tax income	22,184	24,232	40,059	43,572
Provision for Income Taxes: (1)				
Provision for income taxes	4,559	5,305	8,198	9,516
Tax on gains on former bank premises and equipment	-	-	(11)	-
Tax on losses on sale of securities	-	13	-	13
Tax on gain on extinguishment of debt	-	(199)	-	(199)
Tax on acquisition-related expenses (2)	2	14	91	20
Core provision for income taxes	4,561	5,133	8,278	9,350
Preferred Dividends				
Preferred dividends	1,350	1,350	2,700	2,700
Core preferred dividends	1,350	1,350	2,700	2,700
Net Income Available to Common Shareholders:				
Net income available to common shareholders	15,856	18,389	28,076	32,064
Gains on former bank premises and equipment , net of tax	-	-	(39)	-
Losses on sale of securities, net of tax	-	48	1	49
Gain on extinguishment of debt, net of tax	-	(742)	-	(742)
Acquisition-related expenses (2), net of tax	417	54	1,043	151
Core net income available to common shareholders	$ 16,273	$ 17,749	$ 29,081	$ 31,522
Diluted Earnings Per Common Share:				

Diluted earnings per common share	$ 0.62	$ 0.73	$ 1.10	$ 1.27
Gains on former bank premises and equipment , net of tax	-	-	-	-
Losses on sale of securities, net of tax	-	-	-	-
Gain on extinguishment of debt, net of tax	-	(0.03)	-	(0.03)
Acquisition-related expenses (2), net of tax	0.02	-	0.04	0.01
Core diluted earnings per common share	$ 0.64	$ 0.70	$ 1.14	$ 1.25

(1) Tax rates, exclusive of certain nondeductible acquisition-related expenses and goodwill, utilized were 21.129% for both 2024 and 2023. These rates approximate the marginal tax rates for the applicable periods.
(2) Includes merger and conversion-related expenses and salary and employee benefits.

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

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

	As of June 30, 2024	**As of December 31, 2023**
	(Dollars in thousands, except per share data) (Unaudited)	
Tangible Common Equity		
Total shareholders' equity	$ 664,530	$ 644,259
Preferred stock	(71,930)	(71,930)
Total common shareholders' equity	592,600	572,329
Adjustments:		
Goodwill	(91,527)	(88,391)
Core deposit and customer intangibles	(10,849)	(11,895)
Total tangible common equity	$ 490,224	$ 472,043
Common shares outstanding (1)	25,502,175	25,351,809
Book value per common shares (1)	$ 23.24	$ 22.58
Tangible book value per common shares (1)	19.22	18.62

(1) Excludes the dilutive effect, if any, of 216,063 and 217,094 shares of common stock issuable upon exercise of outstanding stock options and restricted stock awards as of June 30, 2024 and December 31, 2023, respectively.

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

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

	As of June 30, 2024	As of December 31, 2023
	(Dollars in thousands, except per share data) (Unaudited)	
Tangible Common Equity		
Total shareholders' equity	$ 664,530	$ 644,259
Preferred stock	(71,930)	(71,930)
Total common shareholders' equity	592,600	572,329
Adjustments:		
Goodwill	(91,527)	(88,391)
Core deposit and customer intangibles	(10,849)	(11,895)
Total tangible common equity	$ 490,224	$ 472,043
Tangible Assets		
Total Assets	$ 6,703,889	$ 6,584,550
Adjustments:		
Goodwill	(91,527)	(88,391)
Core deposit and customer intangibles	(10,849)	(11,895)
Total tangible assets	$ 6,601,513	$ 6,484,264
Common Equity to Total Assets	8.8%	8.7%
Tangible Common Equity to Tangible Assets	7.4	7.3

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a – 15(e) and 15d – 15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Based on such evaluation, our principal executive officer and principal financial officer concluded our disclosure controls and procedures were effective as of the end of the period covered by this Report to provide reasonable assurance that the information we are required to disclose in reports that are filed or furnished under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, including to ensure that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The effectiveness of our, or any, system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. As a result, we cannot assure you that our disclosure controls and procedures will detect all errors or fraud.

Changes in Internal Controls over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are a party to claims and legal proceedings arising in the ordinary course of business. Management evaluates our exposure to these claims and proceedings individually, and in the aggregate, and provides for potential losses on such litigation if the amount of the loss is estimable and the loss is probable. We are not currently involved in any pending legal proceedings other than routine, nonmaterial proceedings occurring in the ordinary course of business.

Item 1A. Risk Factors

In addition to the other information set forth in this Report, we refer you to Item 1A. "Risk Factors" of our Annual Report on Form 10-K for December 31, 2023, filed with the SEC. Other than the risk factors set forth below, there have been no material changes in the risk factors disclosed in our Annual Report on Form 10-K for December 31, 2023.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(a) Not applicable.

(b) Not applicable.

(c) During the three months ended June 30, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading agreement," as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

Number	Description
2.1	Agreement and Plan of Reorganization, dated April 25, 2024, by and between Business First Bancshares, Inc., and Oakwood Bancshares, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on April 25, 2024).
3.1	Restated Articles of Incorporation of Business First Bancshares, Inc., adopted October 27, 2022 (incorporated by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, filed by Business First Bancshares, Inc. on November 3, 2022).
3.2	Amended and Restated Bylaws of Business First Bancshares, Inc., adopted April 23, 2020 (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on April 28, 2020).

4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 filed by Business First Bancshares, Inc. on November 12, 2014).
4.2	Form of Series A Preferred Stock (incorporated by reference to Exhibit A to Exhibit 10.1 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on September 1, 2022).
10.1	Form of Voting Agreement by and among Business First Bancshares, Inc. and certain shareholders of Oakwood Bancshares, Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on April 25, 2024).
10.2	Form of Director Support Agreement by and among Business First Bancshares, Inc., Oakwood Bancshares, Inc. and each non-employee director of Oakwood Bancshares, Inc. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by Business First Bancshares, Inc. on April 25, 2024).
10.3	Change in Control Agreement, dated November 16, 2022, by and among Business First Bancshares, Inc., b1BANK and N. Jerome Vascocu, Jr.*
10.4	Retention Bonus Agreement dated November 21, 2022, by and among Business First Bancshares, Inc., b1BANK and N. Jerome Vascocu, Jr.*
10.5	Supplemental Executive Retirement Plan Participation Agreement, dated as of February 28, 2023, between b1BANK and N. Jerome Vascocu, Jr.*
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	Inline XBRL Instance Document*
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

SIGNATURES

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

	BUSINESS FIRST BANCSHARES, INC.
July 31, 2024	/s/ David R. Melville, III
	David R. Melville, III
	President and Chief Executive Officer
July 31, 2024	/s/ Gregory Robertson
	Gregory Robertson
	Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

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

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

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

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

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

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

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

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

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

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

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

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

Date: July 31, 2024

/s/ David R. Melville, III

David R. Melville, III
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Gregory Robertson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: July 31, 2024

/s/ Gregory Robertson

Gregory Robertson
Chief Financial Officer

EXHIBIT 32.1

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

As adopted pursuant to

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Business First Bancshares, Inc. (“Business First”) for the three month period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, David R. Melville, III, as President and Chief Executive Officer of Business First, and Gregory Robertson, as Chief Financial Officer of Business First, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

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

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

Date: July 31, 2024

/s/ David R. Melville, III

David R. Melville, III
President and Chief Executive Officer

/s/ Gregory Robertson

Gregory Robertson
Chief Financial Officer