BANCFIRST CORP /OK/
Form 10-Q
August 09, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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 0-14384

BancFirst Corporation

(Exact name of registrant as specified in charter)

Oklahoma	**73-1221379**
(State or other Jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
101 N. Broadway,	
Oklahoma City, Oklahoma	**73102-8405**
(Address of principal executive offices)	**(Zip Code)**

(405) 270-1086

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 x No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (sec. 232-405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨.

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

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

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

As of July 31, 2013 there were 15,286,809 shares of the registrant s Common Stock outstanding.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

BANCFIRST CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	June 30, 2013 (unaudited)	December 31, 2012 (see Note 1)	June 30, 2012 (unaudited)
ASSETS			
Cash and due from banks	$ 191,734	$ 213,103	$ 146,387
Interest-bearing deposits with banks	1,528,505	1,732,045	1,617,521
Federal funds sold		700	
Securities (fair value: $520,567, $562,815, and $575,404, respectively)	520,424	562,542	575,034
Loans:			
Total loans (net of unearned interest)	3,245,084	3,242,427	3,065,439
Allowance for loan losses	(38,982)	(38,725)	(37,436)
Loans, net	3,206,102	3,203,702	3,028,003
Premises and equipment, net	117,621	115,503	113,836
Other real estate owned	7,992	9,227	10,088
Intangible assets, net	11,100	12,083	13,158
Goodwill	44,545	44,545	44,545
Accrued interest receivable	15,958	15,976	17,532
Other assets	105,685	112,824	105,607
Total assets	$ 5,749,666	$ 6,022,250	$ 5,671,711
LIABILITIES AND STOCKHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	$ 1,955,723	$ 2,016,832	$ 1,842,680
Interest-bearing	3,194,688	3,423,998	3,256,968
Total deposits	5,150,411	5,440,830	5,099,648
Short-term borrowings	3,522	4,571	6,340
Accrued interest payable	1,907	2,170	2,260
Long-term borrowings	9,964	9,178	11,329
Other liabilities	22,097	19,130	25,769
Junior subordinated debentures	26,804	26,804	26,804
Total liabilities	5,214,705	5,502,683	5,172,150
Commitments and contingent liabilities			
Stockholders equity:			
Senior preferred stock, $1.00 par; 10,000,000 shares authorized; none issued			
Cumulative preferred stock, $5.00 par; 900,000 shares authorized; none issued			
Common stock, $1.00 par, 20,000,000 shares authorized; shares issued and outstanding: 15,255,864, 15,242,308 and 15,153,991, respectively	15,256	15,242	15,154
Capital surplus	84,360	82,401	79,181
Retained earnings	431,120	415,607	398,267
Accumulated other comprehensive income, net of income tax of $2,275, $3,400 and $3,746, respectively	4,225	6,317	6,959

Total stockholders equity	534,961	519,567	499,561
Total liabilities and stockholders equity	$ 5,749,666	$ 6,022,250	$ 5,671,711

The accompanying Notes are an integral part of these consolidated financial statements.

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
INTEREST INCOME				
Loans, including fees	$ 41,493	$ 41,857	$ 82,667	$ 83,817
Securities:				
Taxable	1,295	2,087	2,648	4,494
Tax-exempt	314	411	660	835
Federal funds sold	1		2	1
Interest-bearing deposits with banks	970	1,061	1,947	2,034
Total interest income	44,073	45,416	87,924	91,181
INTEREST EXPENSE				
Deposits	2,889	3,883	5,929	8,132
Short-term borrowings	1	8	3	16
Long-term borrowings	62	91	124	196
Junior subordinated debentures	491	565	982	1,151
Total interest expense	3,443	4,547	7,038	9,495
Net interest income	40,630	40,869	80,886	81,686
Provision for loan losses	516	248	816	421
Net interest income after provision for loan losses	40,114	40,621	80,070	81,265
NONINTEREST INCOME				
Trust revenue	2,015	1,823	3,921	3,530
Service charges on deposits	12,924	11,031	25,260	21,638
Securities transactions	129	226	251	4,258
Income from sales of loans	691	766	1,379	1,338
Insurance commissions	3,045	2,803	7,090	5,796
Cash management	1,626	2,041	3,049	3,980
Gain on sale of other assets	34	323	251	343
Other	1,269	1,351	3,067	2,918
Total noninterest income	21,733	20,364	44,268	43,801
NONINTEREST EXPENSE				
Salaries and employee benefits	25,085	24,830	50,294	49,630
Occupancy and fixed assets expense, net	2,501	2,477	5,081	4,923
Depreciation	2,358	2,226	4,666	4,357
Amortization of intangible assets	424	457	867	914
Data processing services	1,229	1,158	2,414	2,441
Net expense from other real estate owned	643	922	765	1,169
Marketing and business promotion	1,456	1,679	2,963	3,334
Deposit insurance	742	724	1,485	1,443

Other	8,017	8,090	15,864	16,389
Total noninterest expense	42,455	42,563	84,399	84,600
Income before taxes	19,392	18,422	39,939	40,466
Income tax expense	(6,799)	(6,693)	(13,974)	(14,732)
Net income	$ 12,593	$ 11,729	$ 25,965	$ 25,734
NET INCOME PER COMMON SHARE				
Basic	$ 0.83	$ 0.77	$ 1.70	$ 1.70
Diluted	$ 0.81	$ 0.76	$ 1.68	$ 1.67
OTHER COMPREHENSIVE INCOME				
Unrealized losses on securities, net of tax of $857, $292, $1,083 and $610, respectively	$ (1,593)	$ (541)	$ (2,014)	$ (1,132)
Reclassification adjustment for gains included in net income, net of tax of $37, $5, $42 and $728, respectively	(68)	(11)	(78)	(1,353)
Other comprehensive loss, net of tax of $894, $297, $1,125 and $1,338, respectively	(1,661)	(552)	(2,092)	(2,485)
Comprehensive income	$ 10,932	$ 11,177	$ 23,873	$ 23,249

The accompanying Notes are an integral part of these consolidated financial statements.

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

(Dollars in thousands)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
COMMON STOCK				
Issued at beginning of period	$ 15,228	$ 15,145	$ 15,242	$ 15,118
Shares issued	50	16	59	43
Shares acquired and canceled	(22)	(7)	(45)	(7)
Issued at end of period	$ 15,256	$ 15,154	$ 15,256	$ 15,154
CAPITAL SURPLUS				
Balance at beginning of period	$ 82,956	$ 78,420	$ 82,401	$ 77,462
Common stock issued	870	267	1,028	722
Tax effect of stock options	213	137	236	199
Stock-based compensation arrangements	321	357	695	798
Balance at end of period	$ 84,360	$ 79,181	$ 84,360	$ 79,181
RETAINED EARNINGS				
Balance at beginning of period	$ 423,637	$ 390,881	$ 415,607	$ 381,017
Net income	12,593	11,729	25,965	25,734
Dividends on common stock	(4,411)	(4,094)	(8,833)	(8,235)
Common stock acquired and canceled	(699)	(249)	(1,619)	(249)
Balance at end of period	$ 431,120	$ 398,267	$ 431,120	$ 398,267
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Unrealized gains (losses) on securities:				
Balance at beginning of period	$ 5,886	$ 7,511	$ 6,317	$ 9,444
Net change	(1,661)	(552)	(2,092)	(2,485)
Balance at end of period	$ 4,225	$ 6,959	$ 4,225	$ 6,959
Total stockholders equity	$ 534,961	$ 499,561	$ 534,961	$ 499,561

The accompanying Notes are an integral part of these consolidated financial statements.

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(Dollars in thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 25,965	$ 25,734
Adjustments to reconcile to net cash provided by operating activities:		
Provision for loan losses	816	421
Depreciation and amortization	5,533	5,271
Net amortization of securities premiums and discounts	839	782
Realized securities gains	(251)	(4,258)
Gain on sales of loans	(1,379)	(1,338)
Cash receipts from the sale of loans originated for sale	111,609	103,117
Cash disbursements for loans originated for sale	(108,613)	(106,365)
Deferred income tax benefit	(335)	(132)
Gains on other assets	(224)	(288)
Decrease in interest receivable	18	1,130
Decrease in interest payable	(263)	(450)
Amortization of stock-based compensation arrangements	695	798
Other, net	8,304	5,085
Net cash provided by operating activities	42,714	29,507
INVESTING ACTIVITIES		
Net decrease in Federal funds sold	700	400
Purchases of securities:		
Held for investment	(252)	(2,525)
Available for sale	(20,697)	(41,330)
Maturities of securities:		
Held for investment	1,604	2,831
Available for sale	54,394	70,033
Proceeds from sales and calls of securities:		
Held for investment	1,289	2,417
Available for sale	1,975	8,129
Purchases of loans	(34,124)	(17,255)
Proceeds from sales of loans	45,889	16,872
Net other increase in loans	(18,088)	(49,192)
Purchases of premises, equipment and computer software	(7,052)	(7,015)
Proceeds from the sale of other assets	2,178	7,213
Net cash provided by (used in) investing activities	27,816	(9,422)
FINANCING ACTIVITIES		
Net (decrease)/increase in demand, transaction and savings deposits	(244,230)	112,565
Net decrease in time deposits	(46,189)	(50,652)
Net decrease in short-term borrowings	(1,049)	(1,934)
Issuance/(paydown) of long-term borrowings	786	(7,147)
Redemption of junior subordinated debentures		(9,279)
Issuance of common stock	1,323	964

Common stock acquired	(1,664)	(256)
Cash dividends paid	(4,416)	(8,171)
Net cash (used in) provided by financing activities	(295,439)	36,090
Net (decrease) increase in cash, due from banks and interest-bearing deposits	(224,909)	56,175
Cash, due from banks and interest-bearing deposits at the beginning of the period	1,945,148	1,707,733
Cash, due from banks and interest-bearing deposits at the end of the period	$ 1,720,239	$ 1,763,908
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 7,301	$ 9,946
Cash paid during the period for income taxes	$ 12,942	$ 13,775

The accompanying Notes are an integral part of these consolidated financial statements.

BANCFIRST CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of BancFirst Corporation and its subsidiaries (the Company) conform to generally accepted accounting principles and general practice within the banking industry. A summary of significant accounting policies can be found in Footnote (1) to the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of BancFirst Corporation, Council Oak Partners, LLC, BancFirst Insurance Services, Inc., and BancFirst and its subsidiaries. The principal operating subsidiaries of BancFirst are Council Oak Investment Corporation, Council Oak Real Estate, Inc., BancFirst Agency, Inc., and BancFirst Community Development Corporation. All significant intercompany accounts and transactions have been eliminated. Assets held in a fiduciary or agency capacity are not assets of the Company and, accordingly, are not included in the unaudited interim consolidated financial statements.

The accompanying unaudited interim consolidated financial statements and notes are presented in accordance with the instructions for Form 10-Q. The information contained in the financial statements and footnotes included in BancFirst Corporation s Annual Report on Form 10-K for the year ended December 31, 2012, should be referred to in connection with these unaudited interim consolidated financial statements.

The unaudited interim consolidated financial statements contained herein reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the financial position and results of operations of the Company for the interim periods presented. All such adjustments are of a normal and recurring nature. There have been no significant changes in the accounting policies of the Company since December 31, 2012, the date of the most recent annual report.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States inherently involves the use of estimates and assumptions that affect the amounts reported in the financial statements and the related disclosures. These estimates relate principally to the determination of the allowance for loan losses, income taxes, the fair value of financial instruments and the valuation of intangibles. Such estimates and assumptions may change over time and actual amounts realized may differ from those reported.

Reclassifications

Certain items in prior financial statements have been reclassified to conform to the current presentation. Such reclassifications had no effect on previously reported cash flows, stockholders equity or comprehensive income.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, Comprehensive Income (Topic 220). ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. An entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The new standard was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2012. Adoption of ASU 2013-02 did not have a significant effect on the Company s financial statements.

In July 2012, the FASB issued ASU No. 2012-02, Intangibles (Topic 350) Goodwill and Other. ASU 2012-02 simplifies the impairment test for indefinite-lived intangible assets other than goodwill. The new guidance gives the option to first assess qualitative factors to determine if it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative valuation test. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after September 15, 2012. The Company opted to continue to perform quantitative tests for indefinite-lived intangible assets other than goodwill and not to perform qualitative tests for impairment under ASU 2012-02 as of September 15, 2012. Adoption of ASU 2012-02 did not have a significant effect on the Company s financial statements.

In November 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210) Disclosure about Offsetting Assets and Liabilities. ASU 2011-11 is an amendment to require an entity to disclose both net and gross information about offsetting assets and liabilities to enable users of its financial statements to understand the effect of those arrangements. Arrangements include derivatives, sale and repurchase agreements and transactions, securities borrowing and securities lending arrangements. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013 and did not have a significant effect on the Company s financial statements.

(2) RECENT DEVELOPMENTS, INCLUDING MERGERS AND ACQUISITIONS

On January 19, 2012, Council Oak Investment Corporation, a wholly-owned subsidiary of BancFirst, completed the sale of one of its investments that resulted in a pretax gain of approximately $4.5 million. After related expenses and income taxes, the increase in net income approximated $2.6 million. The gain was included in first quarter 2012 earnings.

(3) SECURITIES

The following table summarizes securities held for investment and securities available for sale:

	June 30, 2013 (Dollars in thousands)
Held for investment, at cost (fair value: $14,654)	$ 14,511
Available for sale, at fair value	505,913
Total	$ 520,424

The following table summarizes the amortized cost and estimated fair values of securities held for investment:

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Mortgage backed securities (1)	$ 691	$ 57	$	$ 748
States and political subdivisions	13,820	94	(8)	13,906
Total	$ 14,511	$ 151	$ (8)	$ 14,654

The following table summarizes the amortized cost and estimated fair values of securities available for sale:

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
U.S. treasury and other Federal agencies	$ 422,298	$ 2,558	$ (176)	$ 424,680
Mortgage backed securities (1)	15,417	614		16,031
States and political subdivisions	50,604	1,386	(61)	51,929
Other securities (2)	11,094	2,315	(136)	13,273
Total	$ 499,413	$ 6,873	$ (373)	$ 505,913

(1) Primarily consists of FHLMC, FNMA, GNMA and mortgage backed securities through U.S. agencies.
(2) Primarily consists of equity securities.

The maturities of securities held for investment and available for sale are summarized in the following table using contractual maturities. Actual maturities may differ from contractual maturities due to obligations that are called or prepaid. For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been presented at their contractual maturity.

	June 30, 2013	
	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Held for Investment		
Contractual maturity of debt securities:		
Within one year	$ 5,705	$ 5,723
After one year but within five years	7,547	7,605
After five years but within ten years	867	886
After ten years	392	440
Total	$ 14,511	$ 14,654
Available for Sale		
Contractual maturity of debt securities:		
Within one year	$ 260,548	$ 260,550
After one year but within five years	113,656	115,492
After five years but within ten years	33,120	33,862
After ten years	84,388	86,182
Total debt securities	491,712	496,086
Equity securities	7,701	9,827
Total	$ 499,413	$ 505,913

The following table is a summary of the Company s book value of securities that were pledged as collateral for public funds on deposit, repurchase agreements and for other purposes as required or permitted by law:

June 30, 2013

		(Dollars in thousands)
Book value of pledged securities	$	464,686

(4) LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a schedule of loans outstanding by category:

	June 30, 2013		December 31, 2012		June 30, 2012	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in thousands)			
Commercial and industrial	$ 529,253	16.31%	$ 559,274	17.25%	$ 515,456	16.82%
Oil & gas production & equipment	145,735	4.49	154,380	4.76	125,228	4.08
Agriculture	94,337	2.91	93,274	2.88	77,882	2.54
State and political subdivisions:						
Taxable	9,202	0.28	9,412	0.29	6,520	0.21
Tax-exempt	12,392	0.38	13,194	0.41	13,853	0.45
Real estate:						
Construction	247,827	7.64	226,102	6.97	197,168	6.43
Farmland	126,233	3.89	125,033	3.86	111,472	3.64
One to four family residences	697,927	21.51	669,230	20.64	674,577	22.01
Multifamily residential properties	48,128	1.48	50,721	1.56	46,866	1.53
Commercial	1,070,807	33.00	1,068,445	32.95	1,036,322	33.81
Consumer	243,799	7.51	253,002	7.80	239,156	7.80
Other (not classified above)	19,444	0.60	20,360	0.63	20,939	0.68
Total loans	$ 3,245,084	100.00%	$ 3,242,427	100.00%	$ 3,065,439	100.00%
Loans held for sale (included above)	$ 12,044		$ 13,661		$ 16,612	

The Company s loans are mostly to customers within Oklahoma and over 60% of the loans are secured by real estate. Credit risk on loans is managed through limits on amounts loaned to individual borrowers, underwriting standards and loan monitoring procedures. The amounts and types of collateral obtained, if any, to secure loans are based upon the Company s underwriting standards and management s credit evaluation. Collateral varies, but may include real estate, equipment, accounts receivable, inventory, livestock and securities. The Company s interest in collateral is secured through filing mortgages and liens, and in some cases, by possession of the collateral.

Accounting policies related to appraisals, nonaccruals and charge-offs are disclosed in Footnote (1) to the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Nonperforming and Restructured Assets

Nonaccrual loans, accruing loans past due 90 days or more, and restructured loans are shown in the table below. Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately $978,000 for the six months ended June 30, 2013 and approximately $654,000 for the six months ended June 30, 2012.

At June 30, 2013, troubled debt restructurings consisted primarily of one loan restructured to defer principal payments. The loan was evaluated by management and determined to be well collateralized. Additionally, none of the concessions granted involved a principal reduction or a change from the current market rate of interest. The collateral value will be monitored periodically to evaluate possible impairment. The Company charges interest on principal balances outstanding during deferral periods. As a result, the current and future financial effects of the recorded balance of loans considered to be restructured were not considered to be material.

The following is a summary of nonperforming and restructured assets:

	June 30, 2013	December 31, 2012	June 30, 2012
		(Dollars in thousands)	
Past due 90 days or more and still accruing	$ 850	$ 537	$ 1,403
Nonaccrual	18,946	20,549	20,702
Restructured	17,903	17,866	18,089
Total nonperforming and restructured loans	37,699	38,952	40,194
Other real estate owned and repossessed assets	8,503	9,566	10,223
Total nonperforming and restructured assets	$ 46,202	$ 48,518	$ 50,417
Nonperforming and restructured loans to total loans	1.16%	1.20%	1.31%
Nonperforming and restructured assets to total assets	0.80%	0.81%	0.89%

Loans are segregated into classes based upon the nature of the collateral and the borrower. These classes are used to estimate the credit risk component in the allowance for loan losses.

The following table is a summary of amounts included in nonaccrual loans, segregated by class of loans. Residential real estate refers to one-to-four family real estate.

	June 30, 2013	June 30, 2012
	(Dollars in thousands)	
Non-residential real estate	$ 9,711	$ 9,711
Residential real estate	3,578	4,098
Non-consumer non-real estate	1,268	1,142
Consumer non-real estate	216	140
Other loans	1,938	1,918
Acquired loans	2,235	3,693
Total	$ 18,946	$ 20,702

The following table presents an age analysis of past due loans, segregated by class of loans:

	Age Analysis of Past Due Loans					
	30-89 Days Past Due	90 Days and Greater	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
			(Dollars in thousands)			
As of June 30, 2013						
Non-residential real estate	$ 2,078	$ 3,194	$ 5,272	$ 1,246,052	$ 1,251,324	$ 171
Residential real estate	2,990	817	3,807	788,947	792,754	151
Non-consumer non-real estate	3,519	816	4,335	745,327	749,662	32
Consumer non-real estate	2,382	213	2,595	214,785	217,380	176

Other loans	1,850	1,520	3,370	144,135	147,505	
Acquired loans	375	593	968	85,491	86,459	320
Total	$ 13,194	$ 7,153	$ 20,347	$ 3,224,737	$ 3,245,084	$ 850
As of June 30, 2012						
Non-residential real estate	$ 2,649	$ 2,454	$ 5,103	$ 1,135,948	$ 1,141,051	$ 285
Residential real estate	4,240	1,288	5,528	715,621	721,149	478
Non-consumer non-real estate	1,285	244	1,529	695,887	697,416	16
Consumer non-real estate	2,002	183	2,185	198,242	200,427	122
Other loans	1,213	1,654	2,867	153,117	155,984	102
Acquired loans	3,134	1,352	4,486	144,926	149,412	400
Total	$ 14,523	$ 7,175	$ 21,698	$ 3,043,741	$ 3,065,439	$ 1,403

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect the full amount of scheduled principal and interest payments in accordance with the original contractual terms of the loan agreement. If a loan is impaired, a specific valuation allowance may be allocated, if necessary, so that the loan is reported net at the present value of future cash flows using the loan s existing rate or the fair value of collateral if repayment is expected solely from the collateral.

The following table presents impaired loans, segregated by class of loans. No material amount of interest income was recognized on impaired loans subsequent to their classification as impaired.

	Impaired Loans			
	Unpaid Principal Balance	Recorded Investment with Allowance	Related Allowance	Average Recorded Investment
	(Dollars in thousands)			
As of June 30, 2013				
Non-residential real estate	$ 28,111	$ 26,607	$ 2,391	$ 26,508
Residential real estate	5,204	4,581	1,253	5,262
Non-consumer non-real estate	1,816	1,481	390	1,536
Consumer non-real estate	517	495	79	419
Other loans	2,253	2,090	278	2,648
Acquired loans	10,359	8,230	58	8,511
Total	$ 48,260	$ 43,484	$ 4,449	$ 44,884
As of June 30, 2012				
Non-residential real estate	$ 28,184	$ 27,165	$ 2,122	$ 27,397
Residential real estate	5,839	5,384	1,468	5,547
Non-consumer non-real estate	1,792	1,163	302	1,512
Consumer non-real estate	349	325	59	389
Other loans	2,255	2,020	212	2,158
Acquired loans	13,648	11,522	291	13,263
Total	$ 52,067	$ 47,579	$ 4,454	$ 50,266

Credit Risk Monitoring and Loan Grading

The Company considers various factors to monitor the risk in the loan portfolio including volume and severity of loan delinquencies, nonaccrual loans, internal grading of loans, historical loan loss experience, and economic conditions.

Loans are subject to an internal risk grading system which indicates the risk and acceptability of that loan. The loan grades used by the Company are for internal risk identification purposes and do not directly correlate to regulatory classification categories or any financial reporting definitions.

The general characteristics of the risk grades are disclosed in Footnote (5) to the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

The following table presents internal loan grading by class of loans:

	Internal Loan Grading Grade					
	1	2	3	4	5	Total
	(Dollars in thousands)					
As of June 30, 2013						
Non-residential real estate	$ 1,032,002	$ 183,754	$ 25,686	$ 9,882	$	$ 1,251,324
Residential real estate	667,217	108,006	13,716	3,815		792,754
Non-consumer non-real estate	649,542	94,045	4,737	1,338		749,662
Consumer non-real estate	203,408	11,767	1,860	342	3	217,380
Other loans	143,653	2,642	864	346		147,505
Acquired loans	66,234	13,774	3,894	2,557		86,459
Total	$ 2,762,056	$ 413,988	$ 50,757	$ 18,280	$ 3	$ 3,245,084
As of June 30, 2012						
Non-residential real estate	$ 983,946	$ 118,825	$ 28,514	$ 9,766	$	$ 1,141,051
Residential real estate	619,115	81,324	15,920	4,790		721,149
Non-consumer non-real estate	610,214	78,825	7,211	1,166		697,416
Consumer non-real estate	187,768	10,204	2,122	333		200,427
Other loans	151,330	2,917	1,027	710		155,984
Acquired loans	110,506	27,002	7,898	4,006		149,412
Total	$ 2,662,879	$ 319,097	$ 62,692	$ 20,771	$	$ 3,065,439

The allowance for loan losses (ALLL) methodology is disclosed in Footnote (5) to the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

The following table details activity in the ALLL by class of loans for the period presented. Allocation of a portion of the allowance to one class of loans does not preclude its availability to absorb losses in other classes.

	ALLL						
	Non-Residential Real Estate	Residential Real Estate	Non-Consumer Non-Real Estate	Consumer Non-Real Estate	Other Loans	Acquired Loans	Total
	(Dollars in thousands)						
Three Months Ended June 30, 2013							
Allowance for credit losses:							
Balance at March 31, 2013	$ 15,331	$ 9,921	$ 8,982	$ 2,384	$ 1,822	$ 224	$ 38,664
Charge-offs	(3)	(99)	(69)	(155)	(20)	(1)	(347)
Recoveries	7	29	18	61	31	3	149
Net charge-offs	4	(70)	(51)	(94)	11	2	(198)
Provisions charged to operations	245	231	(180)	99	128	(7)	516
Balance at June 30, 2013	$ 15,580	$ 10,082	$ 8,751	$ 2,389	$ 1,961	$ 219	$ 38,982
Six Months Ended June 30, 2013							
Allowance for credit losses:							
Balance at December 31, 2012	$ 14,969	$ 9,815	$ 9,385	$ 2,451	$ 1,885	$ 220	$ 38,725
Charge-offs	(21)	(250)	(105)	(295)	(159)	(50)	(880)
Recoveries	26	42	49	137	31	36	321
Net charge-offs	5	(208)	(56)	(158)	(128)	(14)	(559)
Provisions charged to operations	606	475	(578)	96	204	13	816
Balance at June 30, 2013	$ 15,580	$ 10,082	$ 8,751	$ 2,389	$ 1,961	$ 219	$ 38,982
Allowance for credit losses-ending balances:							
Individually evaluated for impairment	$ 2,880	$ 2,016	$ 1,124	$ 265	$ 231	$	$ 6,516
Collectively evaluated for impairment	12,700	8,066	7,627	2,124	1,730	219	32,466
Balance at June 30, 2013	$ 15,580	$ 10,082	$ 8,751	$ 2,389	$ 1,961	$ 219	$ 38,982
Loans-Ending balances:							
Individually evaluated for impairment	$ 35,568	$ 17,531	$ 6,075	$ 2,205	$ 280	$	$ 61,659
Collectively evaluated for impairment	1,215,756	775,223	743,587	215,175	147,225	80,008	3,176,974
Loans acquired with deteriorated credit quality						6,451	6,451
Balance at June 30, 2013	$ 1,251,324	$ 792,754	$ 749,662	$ 217,380	$ 147,505	$ 86,459	$ 3,245,084

	ALLL						
	Non-Residential Real Estate	Residential Real Estate	Non-Consumer Non-Real Estate	Consumer Non-Real Estate	Other Loans	Acquired Loans	Total
	(Dollars in thousands)						
Three Months Ended June 30, 2012							
Allowance for credit losses:							
Balance at March 31, 2012	$ 14,109	$ 9,762	$ 9,198	$ 2,283	$ 1,850	$ 431	$ 37,633
Charge-offs	(7)	(95)	(313)	(77)	(27)	(12)	(531)
Recoveries	(6)	13	26	32	12	9	86
Net charge-offs	(13)	(82)	(287)	(45)	(15)	(3)	(445)
Provisions charged to operations	253	326	(353)	44	19	(41)	248
Balance at June 30, 2012	$ 14,349	$ 10,006	$ 8,558	$ 2,282	$ 1,854	$ 387	$ 37,436
Six Months Ended June 30, 2012							
Allowance for credit losses:							
Balance at December 31, 2011	$ 13,948	$ 9,764	$ 9,156	$ 2,315	$ 1,886	$ 587	$ 37,656
Charge-offs	(128)	(131)	(330)	(191)	(207)	(76)	(1,063)
Recoveries	31	109	124	116	31	11	422
Net charge-offs	(97)	(22)	(206)	(75)	(176)	(65)	(641)
Provisions charged to operations	498	264	(392)	42	144	(135)	421
Balance at June 30, 2012	$ 14,349	$ 10,006	$ 8,558	$ 2,282	$ 1,854	$ 387	$ 37,436
Allowance for credit losses-ending balances:							
Individually evaluated for impairment	$ 2,986	$ 2,760	$ 1,436	$ 302	$ 196	$	$ 7,680
Collectively evaluated for impairment	11,363	7,246	7,122	1,980	1,658	387	29,756
Balance at June 30, 2012	$ 14,349	$ 10,006	$ 8,558	$ 2,282	$ 1,854	$ 387	$ 37,436
Loans-Ending balances:							
Individually evaluated for impairment	$ 38,278	$ 20,710	$ 8,377	$ 2,455	$ 109	$	$ 69,929
Collectively evaluated for impairment	1,102,773	700,439	689,039	197,972	155,875	137,508	2,983,606
Loans acquired with deteriorated credit quality						11,904	11,904
Balance at June 30, 2012	$ 1,141,051	$ 721,149	$ 697,416	$ 200,427	$ 155,984	$ 149,412	$ 3,065,439

Transfers from Loans

Transfers from loans to other real estate owned and repossessed assets are non-cash transactions, and are not included in the statements of cash flow.

Transfers from loans to other real estate owned and repossessed assets during the periods presented, are summarized as follows:

	Six Months Ended June 30, 2013	2012
	(Dollars in thousands)	
Other real estate owned	$ 896	$ 1,284
Repossessed assets	594	295
Total	$ 1,490	$ 1,579

(5) INTANGIBLE ASSETS

The following is a summary of intangible assets:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(Dollars in thousands)	
As of June 30, 2013			
Core deposit intangibles	$ 13,473	$ (6,508)	$ 6,965
Customer relationship intangibles	5,657	(2,160)	3,497
Mortgage servicing intangibles	765	(127)	638
Total	$ 19,895	$ (8,795)	$ 11,100

Additional information for intangible assets can be found in Footnote (7) to the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

(6) STOCK-BASED COMPENSATION

The Company adopted a nonqualified incentive stock option plan (the BancFirst ISOP) in May 1986. The Company amended the BancFirst ISOP to increase the number of shares to be issued under the plan to 3,000,000 shares in May 2013. At June 30, 2013, 185,860 shares were available for future grants. The BancFirst ISOP will terminate on December 31, 2014. The options are exercisable beginning four years from the date of grant at the rate of 25% per year for four years. Options expire at the end of fifteen years from the date of grant. Options outstanding as of June 30, 2013 will become exercisable through the year 2020. The option price must be no less than 100% of the fair value of the stock relating to such option at the date of grant.

In June 1999, the Company adopted the BancFirst Corporation Non-Employee Directors Stock Option Plan (the BancFirst Directors Stock Option Plan). Each non-employee director is granted an option for 10,000 shares. The Company amended the BancFirst Directors Stock Option Plan to increase the number of shares to be issued under the plan to 205,000 shares in May 2009. At June 30, 2013, 15,000 shares were available for future grants. The options are exercisable beginning one year from the date of grant at the rate of 25% per year for four years, and expire at the end of fifteen years from the date of grant. Options outstanding as of June 30, 2013 will become exercisable through the year 2017. The option price must be no less than 100% of the fair value of the stock relating to such option at the date of grant.

The Company currently uses newly issued stock to satisfy stock-based exercises, but reserves the right to use treasury stock purchased under the Company s Stock Repurchase Program (the SRP) in the future.

The following table is a summary of the activity under both the BancFirst ISOP and the BancFirst Directors Stock Option Plan:

	Options	Wgtd. Avg. Exercise Price	Wgtd. Avg. Remaining Contractual Term	Aggregate Intrinsic Value
	(Dollars in thousands, except per share data)			
Six Months Ended June 30, 2013				
Outstanding at December 31, 2012	1,216,981	$ 31.98		
Options granted	50,000	42.79		
Options exercised	(55,750)	21.54		
Options canceled, forfeited, or expired	(5,000)	43.02		
Outstanding at June 30, 2013	1,206,231	32.86	8.64 Yr	$ 16,512

Exercisable at June 30, 2013	579,781	26.56	4.83 Yr	$ 11,588

The following table has additional information regarding options granted and options exercised under both the BancFirst ISOP and the BancFirst Directors Stock Option Plan:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share data)			
Weighted average grant-date fair value per share of options granted	$ 8.74	$	$ 8.74	$
Total intrinsic value of options exercised	2,083	617	2,431	1,749
Cash received from options exercised	1,059	239	1,201	722
Tax benefit realized from options exercised	805	239	940	677

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model and is based on certain assumptions including risk-free rate of return, dividend yield, stock price volatility, and the expected term. The fair value of each option is expensed over its vesting period.

The following table is a summary of the Company s recorded stock-based compensation expense:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Stock-based compensation expense	$ 321	$ 357	$ 695	$ 798
Tax	124	138	269	309
Stock-based compensation expense, net of tax	$ 197	$ 219	$ 426	$ 489

The Company will continue to amortize the remaining fair value of stock options over the remaining vesting period of approximately seven years. The following table shows the remaining fair value of stock options:

	June 30, 2013
	(Dollars in thousands)
Fair value of stock options	$ 5,144

The following table shows the assumptions used for computing stock-based compensation expense under the fair value method:

	Six Months Ended June 30,	
	2013	2012
Risk-free interest rate	2.53%	1.78%
Dividend yield	2.00%	2.00%
Stock price volatility	18.36%	38.72%
Expected term	10 Yrs	10 Yrs

The risk-free interest rate is determined by reference to the spot zero-coupon rate for the U.S. Treasury security with a maturity similar to the expected term of the options. The dividend yield is the expected yield for the expected term. The stock price volatility is estimated from the recent historical volatility of the Company s stock. The expected term is estimated from the historical option exercise experience.

(7) STOCKHOLDERS EQUITY

In November 1999, the Company adopted a Stock Repurchase Program (the SRP). The SRP may be used as a means to increase earnings per share and return on equity, to purchase treasury stock for the exercise of stock options or for distributions under the Deferred Stock Compensation Plan, to provide liquidity for optionees to dispose of stock from exercises of their stock options, and to provide liquidity for stockholders wishing to sell their stock. All shares repurchased under the SRP have been retired and not held as treasury stock. The timing, price and amount of stock repurchases under the SRP may be determined by management and approved by the Company s Executive Committee.

The following table is a summary of the shares under the program:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Number of shares repurchased	17,191	6,787	40,241	6,787
Average price of shares repurchased	$ 40.83	$ 37.70	$ 40.88	$ 37.70
Shares remaining to be repurchased	194,723	234,964	194,723	234,964

The Company and BancFirst are subject to risk-based capital guidelines issued by the Board of Governors of the Federal Reserve System and FDIC. These guidelines are used to evaluate capital adequacy and involve both quantitative and qualitative evaluations of the Company s and BancFirst s assets, liabilities, and certain off-balance-sheet items calculated under regulatory practices. Failure to meet the minimum capital requirements can initiate certain mandatory or discretionary actions by the regulatory agencies that could have a direct material effect on the Company s financial statements. Management believes, as of June 30, 2013, that the Company and BancFirst met all capital adequacy requirements to which they are subject. The required capital amounts and the Company s and BancFirst s respective ratios are shown in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(Dollars in thousands)			
As of June 30, 2013:						
Total Capital						
(to Risk Weighted Assets)-						
BancFirst Corporation	$ 540,704	14.97%	$ 288,899	8.00%	N/A	N/A
BancFirst	510,785	14.18%	288,208	8.00%	$ 360,260	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)-						
BancFirst Corporation	$ 501,722	13.89%	$ 144,450	4.00%	N/A	N/A
BancFirst	471,803	13.10%	144,104	4.00%	$ 216,156	6.00%
Tier 1 Capital						
(to Total Assets)-						
BancFirst Corporation	$ 501,722	8.81%	$ 172,491	3.00%	N/A	N/A
BancFirst	471,803	8.30%	171,887	3.00%	$ 286,479	5.00%

As of June 30, 2013, BancFirst was considered to be well capitalized and there are no conditions or events since the most recent notification of BancFirst s capital category that management believes would materially change its category under capital requirements existing as of the report date. To be well capitalized under Federal bank regulatory agency definitions, a depository institution must have a Tier 1 Ratio of at least 6%, a combined Tier 1 and Tier 2 Ratio of at least 10%, and a Leverage Ratio of at least 5%. The Company s trust preferred securities have continued to be included in Tier 1 capital as the Company s total assets do not exceed $10 billion.

Basel III Capital Rules

In July 2013, the three Federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee s December 2010 framework known as Basel III for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions regulatory capital ratios. These Rules also address risk weights and other issues affecting the denominator in banking institutions regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies rules. The Basel III Capital Rules are effective for the Company and BancFirst on January 1, 2015 (subject to a 4-year phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called Common Equity Tier 1 (CET1), (ii) specify that Tier 1 capital consist of CET1 and Additional Tier 1 capital instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

Under the Basel III Capital Rules, the initial minimum capital ratios as of January 1, 2015 will be as follows:

4.5% CET1 to risk-weighted assets.
6.0% Tier 1 capital to risk-weighted assets.
8.0% Total capital to risk-weighted assets.
4.0% Minimum leverage ratio

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). Under the new rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of CET1 capital above its minimum risk-based capital requirements. The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

Management believes that, as of June 30, 2013, the Company and BancFirst would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

(8) NET INCOME PER COMMON SHARE

Basic and diluted net income per common share are calculated as follows:

	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(Dollars in thousands, except per share data)		
Three Months Ended June 30, 2013			
Basic			
Income available to common stockholders	$ 12,593	15,232,129	$ 0.83
Effect of stock options		247,620	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$ 12,593	15,479,749	$ 0.81
Three Months Ended June 30, 2012			
Basic			
Income available to common stockholders	$ 11,729	15,155,525	$ 0.77
Effect of stock options		271,271	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$ 11,729	15,426,796	$ 0.76
Six Months Ended June 30, 2013			
Basic			
Income available to common stockholders	$ 25,965	15,235,397	$ 1.70
Effect of stock options		246,473	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$ 25,965	15,481,870	$ 1.68
Six Months Ended June 30, 2012			
Basic			
Income available to common stockholders	$ 25,734	15,145,066	$ 1.70
Effect of stock options		276,608	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$ 25,734	15,421,674	$ 1.67

The following table shows the number and average exercise price of options that were excluded from the computation of diluted net income per common share for each period because the options exercise prices were greater than the average market price of the common shares:

	Shares	Average Exercise

		Price
Three Months Ended June 30, 2013	466,159	$ 39.76
Three Months Ended June 30, 2012	607,200	$ 38.70
Six Months Ended June 30, 2013	475,867	$ 39.69
Six Months Ended June 30, 2012	607,200	$ 38.70

(9) FAIR VALUE MEASUREMENTS

Accounting standards define fair value as the price that would be received to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants on the measurement date.

FASB ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes certain impaired loans, foreclosed assets, other real estate, goodwill and other intangible assets.

Financial Assets and Financial Liabilities Measured at Fair Value on a Recurring Basis

A description of the valuation methodologies and key inputs used to measure financial assets and financial liabilities at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to the following categories of the Company s financial assets and financial liabilities.

Securities Available for Sale

Securities classified as available for sale are reported at fair value. U.S. Treasuries are valued using Level 1 inputs. Other securities available for sale including U.S. Federal agencies, mortgage backed securities, and state and political subdivisions are valued using prices from an independent pricing service utilizing Level 2 data. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. The Company also invests in equity securities classified as available for sale for which observable information is not readily available. These securities are reported at fair value utilizing Level 3 inputs. For these securities, management determines the fair value based on replacement cost, the income approach or information provided by outside consultants or lead investors.

The Company reviews the prices for Level 1 and Level 2 securities supplied by the independent pricing service for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, the Company does not purchase investment portfolio securities that are esoteric or that have complicated structures. The Company s entire portfolio consists of traditional investments including U.S. Treasury obligations, Federal agency mortgage pass-through securities, general obligation municipal bonds and a small amount of municipal revenue bonds. Pricing for such instruments is fairly generic and is easily obtained. For in-state bond issues that have relatively low issue sizes and liquidity, the Company utilizes the same parameters adjusted for the specific issue. From time to time, the Company will validate, on a sample basis, prices supplied by the independent pricing service by comparison to prices obtained from third party sources.

Derivatives

Derivatives are reported at fair value utilizing Level 2 inputs. The Company obtains dealer and market quotations to value its oil and gas swaps and options. The Company utilizes dealer quotes and observable market data inputs to substantiate internal valuation models.

Loans Held For Sale

The Company originates mortgage loans to be sold. At the time of origination, the acquiring bank has already been determined and the terms of the loan, including interest rate, have already been set by the acquiring bank, allowing the Company to originate the loan at fair value. Mortgage loans are generally sold within 30 days of origination. Loans held for sale are valued using Level 2 inputs. Gains or losses recognized upon the sale of the loans are determined on a specific identification basis.

Mortgage Servicing Intangibles

The Company acquired Mortgage Servicing Intangibles with the acquisition of 1st Bank Oklahoma on July 12, 2011. Mortgage Servicing Intangibles are amortized based on current prepayment assumptions and are adjusted to fair value quarterly, if impaired. Fair value is estimated based on the present value of future cash flows over several interest rate scenarios, which are then discounted at risk-adjusted rates. The Company considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. When available, fair value estimates and assumptions are compared to observable market data and the recent market activity and actual portfolio experience.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2013 and 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(Dollars in thousands)		
June 30, 2013				
Securities available for sale:				
U.S. Treasury	$ 20,158	$	$	$ 20,158
U.S. Federal agencies		404,522		404,522
Mortgage-backed securities		16,031		16,031
States and political subdivisions		51,929		51,929
Other securities		3,446	9,827	13,273
Derivative assets		2,200		2,200
Derivative liabilities		991		991
Loans held for sale		12,044		12,044
Mortgage servicing intangibles			638	638
June 30, 2012				
Securities available for sale:				
U.S. Federal agencies	$	$ 459,566	$	$ 459,566
Mortgage-backed securities		24,709		24,709
States and political subdivisions		60,538		60,538
Other securities			10,487	10,487
Derivative assets		7,652		7,652
Derivative liabilities		5,648		5,648
Loans held for sale		16,612		16,612
Mortgage servicing intangibles			915	915

The changes in Level 3 assets measured at estimated fair value on a recurring basis during the six months ended June 30, 2013 and 2012 were as follows:

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(Dollars in thousands)	
Balance at the beginning of the year	$ 10,779	$ 13,225
Purchases, issuances and settlements	239	1,739
Sales	(121)	(5,154)
(Losses) gains included in earnings	5	4,110
Total unrealized (losses) gains	(437)	(2,518)
Balance at the end of the period	$ 10,465	$ 11,402

The Company s policy is to recognize transfers in and transfers out of Levels 1, 2 and 3 as of the end of the reporting period. During the six months ended June 30, 2013 and 2012, the Company did not transfer any securities between levels in the fair value hierarchy.

Financial Assets and Financial Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). These financial assets and financial liabilities are reported at fair value utilizing Level 3 inputs.

Impaired loans are reported at the fair value of the underlying collateral if repayment is dependent on liquidation of the collateral. The impaired loans are adjusted to fair value through a specific allocation of the allowance for loan losses.

Foreclosed assets, upon initial recognition, are measured and adjusted to fair value through a charge-off to the allowance for possible loan losses based upon the fair value of the foreclosed asset.

Other real estate owned is revalued at fair value subsequent to initial recognition, with any losses recognized in net expense from other real estate owned.

The following table summarizes assets measured at fair value on a nonrecurring basis and the related gains or losses recognized during the period:

	Level 1	Level 2	Level 3	Total Fair Value	Gains (Losses)
			(Dollars in thousands)		
Six Months Ended June 30, 2013					
Impaired loans (less specific allowance)			$ 39,035	$ 39,035	$
Foreclosed assets			511	511	29
Other real estate owned			7,992	7,992	(705)
Six Months Ended June 30, 2012					
Impaired loans (less specific allowance)			$ 43,125	$ 43,125	$
Foreclosed assets			135	135	(86)
Other real estate owned			10,088	10,088	(1,067)

Estimated Fair Value of Financial Instruments

The Company is required under current authoritative accounting guidance to disclose the estimated fair value of their financial instruments that are not recorded at fair value. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments. A financial instrument is defined as cash, evidence of an ownership interest in an entity or a contract that creates a contractual obligation or right to deliver or receive cash or another financial instrument from a second entity. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents Include: Cash and Due from Banks; Federal Funds Sold and Interest-Bearing Deposits

The carrying amount of these short-term instruments is a reasonable estimate of fair value.

Securities Held for Investment

For securities held for investment, which are generally traded in secondary markets, fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities making adjustments for credit or liquidity if applicable.

Loans

For certain homogeneous categories of loans, such as some residential mortgages, fair values are estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair values of other types of loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits

The fair values of transaction and savings accounts are the amounts payable on demand at the reporting date. The fair values of fixed-maturity certificates of deposit are estimated using the rates currently offered for deposits of similar remaining maturities.

Short-term Borrowings

The amounts payable on these short-term instruments are reasonable estimates of fair value.

Long-term Borrowings

The fair values of fixed-rate long-term borrowings are estimated using the rates that would be charged for borrowings of similar remaining maturities.

Junior Subordinated Debentures

The fair values of junior subordinated debentures are estimated using the rates that would be charged for junior subordinated debentures of similar remaining maturities.

Loan Commitments and Letters of Credit

The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the terms of the agreements. The fair values of letters of credit are based on fees currently charged for similar agreements.

The estimated fair values of the Company s financial instruments are as follows:

	June 30,			
	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
FINANCIAL ASSETS				
Cash and cash equivalents	$ 1,720,239	$ 1,720,239	$ 1,763,908	$ 1,763,908
Securities held for investment	14,511	14,654	19,734	20,104
Loans:				
Loans (net of unearned interest)	3,245,084		3,065,439	
Allowance for loan losses	(38,982)		(37,436)	
Loans, net	3,206,102	3,238,652	3,028,003	3,092,725
FINANCIAL LIABILITIES				
Deposits	5,150,411	5,175,528	5,099,648	5,121,335
Short-term borrowings	3,522	3,522	6,340	6,340
Long-term borrowings	9,964	9,906	11,329	11,431
Junior subordinated debentures	26,804	28,991	26,804	28,970
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS				
Loan commitments		1,574		1,321
Letters of credit		437		428

Non-financial Assets and Non-financial Liabilities Measured at Fair Value

The Company has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis include intangible assets (excluding mortgage service rights, which are valued quarterly) and other non-financial long-lived assets measured at fair value and adjusted for impairment. These items are evaluated at least annually for impairment. The overall levels of non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis were not considered to be significant to the Company at June 30, 2013 or 2012.

(10) DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into oil and gas swaps and options contracts to accommodate the business needs of its customers. Upon the origination of an oil or gas swap or option contract with a customer, the Company simultaneously enters into an offsetting contract with a counterparty to mitigate the exposure to fluctuations in oil and gas prices. These derivatives are not designated as hedged instruments and are recorded on the Company s consolidated balance sheet at fair value.

The Company utilizes dealer quotations and observable market data inputs to substantiate internal valuation models. The notional amounts and estimated fair values of oil and gas derivative positions outstanding are presented in the following table:

	June 30, 2013		
Oil and Natural Gas Swaps and Options	**Notional Units**	**Notional Amount**	**Estimated Fair Value**
	(Notional amounts and dollars in thousands)		
Oil			
Derivative assets	Barrels	447	$ 1,202
Derivative liabilities	Barrels	(447)	(697)
Natural Gas			
Derivative assets	MMBTUs	3,122	999
Derivative liabilities	MMBTUs	(3,122)	(294)
Total Fair Value	**Included in**		
Derivative assets	Other assets		2,201
Derivative liabilities	Other liabilities		991

The following table is a summary of the Company s recognized income related to the activity, which was included in other noninterest income:

	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
	(Dollars in thousands)			
Derivative income	$ 130	$ 141	$ 238	$ 350

The Company s credit exposure on oil and gas swaps and options varies based on the current market prices of oil and natural gas. Other than credit risk, changes in the fair value of customer positions will be offset by equal and opposite changes in the counterparty positions. The net positive fair value of the contracts is the profit derived from the activity and is unaffected by market price movements.

Customer credit exposure is managed by strict position limits and is primarily offset by first liens on production while the remainder is offset by cash. Counterparty credit exposure is managed by selecting highly rated counterparties (rated A- or better by Standard and Poor s) and monitoring market information.

The following table is a summary of the Company s net credit exposure relating to oil and gas swaps and options with bank counterparties:

	June 30, 2013 (Dollars in thousands)
Credit exposure	$ 1,246

Balance Sheet Offsetting

Derivatives may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements. The Company s derivative transactions with upstream financial institution counterparties and bank customers are generally executed under International Swaps and Derivative Association (ISDA) master agreements which include right of set-off provisions. In such cases there is generally a legally enforceable right to offset recognized amounts and there may be an intention to settle such amounts on a net basis. Nonetheless, the Company does not generally offset such financial instruments for financial reporting purposes.

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(11) SEGMENT INFORMATION

The Company evaluates its performance with an internal profitability measurement system that measures the profitability of its business units on a pre-tax basis. The four principal business units are metropolitan banks, community banks, other financial services, and executive, operations and support. Metropolitan and community banks offer traditional banking products such as commercial and retail lending, and a full line of deposit accounts. Metropolitan banks consist of banking locations in the metropolitan Oklahoma City and Tulsa areas. Community banks consist of banking locations in communities throughout Oklahoma. Other financial services are specialty product business units including guaranteed small business lending, residential mortgage lending, trust services, securities brokerage, electronic banking and insurance. The executive, operations and support groups represent executive management, operational support and corporate functions that are not allocated to the other business units.

The results of operations and selected financial information for the four business units are as follows:

	Metropolitan Banks	Community Banks	Other Financial Services	Executive, Operations & Support	Eliminations	Consolidated
			(Dollars in thousands)			
Three Months Ended:						
June 30, 2013						
Net interest income (expense)	$ 13,943	$ 25,424	$ 1,730	$ (467)	$	$ 40,630
Noninterest income	3,116	11,846	6,073	13,792	(13,094)	21,733
Income before taxes	8,108	14,512	2,158	7,643	(13,029)	19,392
June 30, 2012						