BANCFIRST CORP /OK/
Form 10-Q
August 08, 2014

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, 2014

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 incorporation or organization)	**(I.R.S. Employer 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, 2014 there were 15,423,103 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, 2014 (unaudited)	December 31, 2013 (see Note 1)	June 30, 2013 (unaudited)
ASSETS			
Cash and due from banks	$ 233,627	$ 196,547	$ 191,734
Interest-bearing deposits with banks	1,622,810	1,660,988	1,528,505
Securities (fair value: $570,518, $527,735, and $520,567, respectively)	570,429	527,627	520,424
Loans:			
Total loans (net of unearned interest)	3,665,908	3,387,146	3,245,084
Allowance for loan losses	(43,297)	(39,034)	(38,982)
Loans, net	3,622,611	3,348,112	3,206,102
Premises and equipment, net	121,559	117,862	117,621
Other real estate owned	6,114	8,149	7,992
Intangible assets, net	11,574	10,273	11,100
Goodwill	44,962	44,545	44,545
Accrued interest receivable and other assets	134,947	124,871	121,643
Total assets	$ 6,368,633	$ 6,038,974	$ 5,749,666
LIABILITIES AND STOCKHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	$ 2,205,257	$ 2,085,753	$ 1,955,723
Interest-bearing	3,516,336	3,333,766	3,194,688
Total deposits	5,721,593	5,419,519	5,150,411
Short-term borrowings	12,317	4,590	3,522
Long-term borrowings		6,938	9,964
Accrued interest payable and other liabilities	27,414	24,126	24,004
Junior subordinated debentures	26,804	26,804	26,804
Total liabilities	5,788,128	5,481,977	5,214,705
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: 15,398,603, 15,333,622 and 15,255,864, respectively	15,399	15,334	15,256
Capital surplus	91,447	88,803	84,360
Retained earnings	468,761	448,953	431,120
Accumulated other comprehensive income, net of income tax of $3,090, $2,103 and $2,275, respectively	4,898	3,907	4,225
Total stockholders equity	580,505	556,997	534,961
Total liabilities and stockholders equity	$ 6,368,633	$ 6,038,974	$ 5,749,666

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,	
	2014	**2013**	**2014**	**2013**
INTEREST INCOME				
Loans, including fees	$ 45,855	$ 41,493	$ 88,504	$ 82,667
Securities:				
Taxable	1,502	1,295	2,807	2,648
Tax-exempt	273	314	553	660
Federal funds sold		1	1	2
Interest-bearing deposits with banks	1,096	970	2,190	1,947
Total interest income	48,726	44,073	94,055	87,924
INTEREST EXPENSE				
Deposits	2,733	2,889	5,522	5,929
Short-term borrowings	5	1	7	3
Long-term borrowings	7	62	25	124
Junior subordinated debentures	492	491	983	982
Total interest expense	3,237	3,443	6,537	7,038
Net interest income	45,489	40,630	87,518	80,886
Provision for loan losses	3,129	516	4,347	816
Net interest income after provision for loan losses	42,360	40,114	83,171	80,070
NONINTEREST INCOME				
Trust revenue	2,315	2,015	4,466	3,921
Service charges on deposits	14,360	12,924	27,818	25,260
Securities transactions	85	129	535	251
Income from sales of loans	467	691	818	1,379
Insurance commissions	3,262	3,045	7,228	7,090
Cash management	1,703	1,626	3,288	3,049
Gain on sale of other assets	3	34	8	251
Other	1,416	1,269	3,012	3,067
Total noninterest income	23,611	21,733	47,173	44,268
NONINTEREST EXPENSE				
Salaries and employee benefits	27,478	25,085	53,416	50,294

Occupancy and fixed assets expense, net	2,784	2,501	5,573	5,081
Depreciation	2,375	2,358	4,724	4,666
Amortization of intangible assets	458	424	866	867
Data processing services	1,185	1,229	2,355	2,414
Net (income) expense from other real estate owned	(406)	643	144	765
Marketing and business promotion	1,661	1,456	3,377	2,963
Deposit insurance	873	742	1,646	1,485
Other	9,449	8,017	17,592	15,864
Total noninterest expense	45,857	42,455	89,693	84,399
Income before taxes	20,114	19,392	40,651	39,939
Income tax expense	(5,426)	(6,799)	(11,306)	(13,974)
Net income	$ 14,688	$ 12,593	$ 29,345	$ 25,965
NET INCOME PER COMMON SHARE				
Basic	$ 0.94	$ 0.83	$ 1.90	$ 1.70
Diluted	$ 0.92	$ 0.82	$ 1.86	$ 1.68
OTHER COMPREHENSIVE INCOME				
Unrealized gains (losses) on securities, net of tax of $(618), $857, $(1,021) and $1,083, respectively	$ 980	$ (1,593)	$ 1,045	$ (2,014)
Reclassification adjustment for gains included in net income, net of tax of $14, $37, $34 and $42, respectively	(22)	(68)	(54)	(78)
Other comprehensive income (loss), net of tax of $(604), $894, $(987) and $1,125, respectively	958	(1,661)	991	(2,092)
Comprehensive income	$ 15,646	$ 10,932	$ 30,336	$ 23,873

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,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
COMMON STOCK				
Issued at beginning of period	$ 15,364	$ 15,228	$ 15,334	$ 15,242
Shares issued	35	50	65	59
Shares acquired and canceled		(22)		(45)
Issued at end of period	$ 15,399	$ 15,256	$ 15,399	$ 15,256
CAPITAL SURPLUS				
Balance at beginning of period	$ 89,951	$ 82,956	$ 88,803	$ 82,401
Common stock issued	742	870	1,620	1,028
Tax effect of stock options	325	213	248	236
Stock-based compensation arrangements	429	321	776	695
Balance at end of period	$ 91,447	$ 84,360	$ 91,447	$ 84,360
RETAINED EARNINGS				
Balance at beginning of period	$ 458,857	$ 423,637	$ 448,953	$ 415,607
Net income	14,688	12,593	29,345	25,965
Dividends on common stock	(4,784)	(4,411)	(9,537)	(8,833)
Common stock acquired and canceled		(699)		(1,619)
Balance at end of period	$ 468,761	$ 431,120	$ 468,761	$ 431,120
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Unrealized gains (losses) on securities:				
Balance at beginning of period	$ 3,940	$ 5,886	$ 3,907	$ 6,317
Net change	958	(1,661)	991	(2,092)
Balance at end of period	$ 4,898	$ 4,225	$ 4,898	$ 4,225
Total stockholders equity	$ 580,505	$ 534,961	$ 580,505	$ 534,961

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, 2014	Six Months Ended June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 29,345	$ 25,965
Adjustments to reconcile to net cash provided by operating activities:		
Provision for loan losses	4,347	816
Depreciation and amortization	5,590	5,533
Net amortization of securities premiums and discounts	512	839
Realized securities gains	(535)	(251)
Gain on sales of loans	(818)	(1,379)
Cash receipts from the sale of loans originated for sale	71,074	111,609
Cash disbursements for loans originated for sale	(73,306)	(108,613)
Deferred income tax provision	(2,943)	(335)
Gain on other assets	(535)	(224)
(Increase) decrease in interest receivable	(411)	18
Decrease in interest payable	(316)	(263)
Amortization of stock-based compensation arrangements	776	695
Other, net	(1,619)	8,304
Net cash provided by operating activities	31,161	42,714
INVESTING ACTIVITIES		
Net decrease in federal funds sold	4,619	700
Net cash and due from banks received from acquisitions	174,283	
Purchases of held for investment securities		(252)
Purchases of available for sale securities	(203,890)	(20,697)
Proceeds from maturities, calls and paydowns of held for investment securities	2,689	2,642
Proceeds from maturities, calls and paydowns of available for sale securities	163,472	56,369
Proceeds from sales of available for sale securities	1,951	251
Purchases of loans	(43,787)	(34,124)
Proceeds from sales of loans	19,257	45,889
Net other increase in loans	(141,858)	(18,088)
Purchases of premises, equipment and computer software	(5,783)	(7,052)
Proceeds from the sale of other assets	3,322	2,178
Net cash (used in) provided by investing activities	(25,725)	27,816
FINANCING ACTIVITIES		
Net increase (decrease) in demand, transaction and savings deposits	92,966	(244,230)

Net decrease in time deposits	(92,706)	(46,189)
Net increase (decrease) in short-term borrowings	7,727	(1,049)
(Pay down) issuance of long-term borrowings	(6,938)	786
Issuance of common stock	1,933	1,323
Common stock acquired		(1,664)
Cash dividends paid	(9,516)	(4,416)
Net cash used in financing activities	(6,534)	(295,439)
Net decrease in cash, due from banks and interest-bearing deposits	(1,098)	(224,909)
Cash, due from banks and interest-bearing deposits at the beginning of the period	1,857,535	1,945,148
Cash, due from banks and interest-bearing deposits at the end of the period	$ 1,856,437	$ 1,720,239
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 6,853	$ 7,301
Cash paid during the period for income taxes	$ 13,770	$ 12,942
Noncash investing and financing activities:		
Unpaid common stock dividends declared	$ 4,765	$ 4,417

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 accounting principles generally accepted in the United State of America (U.S. GAAP) and general practice within the banking industry. A summary of significant accounting policies can be found in Note (1) to the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

Basis of Presentation

The accompanying unaudited interim 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, 2013, 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, 2013, 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 January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-04, Receivables: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon

Foreclosure (Topic 310-40). ASU 2014-04 clarifies that an in-substance repossession or foreclosure occurs upon either the creditor obtaining legal title to the residential real estate property or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The amendments may be adopted using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. Adoption of ASU 2014-04 is not expected to have a significant effect on the Company s financial statements.

In January 2014, the FASB issued ASU No. 2014-01, Accounting for Investments in Affordable Housing Projects (Topic 323). ASU 2014-01 revises the necessary criteria that need to be met in order for an entity to account for investments in affordable housing projects net of the provision for income taxes. It also changes the method of recognition from an effective amortization approach to a proportional amortization approach. Additional disclosures were also set forth in this update. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The amendments are required to be applied retrospectively to all periods presented. Early adoption is permitted and adoption of the standard is optional. Management is evaluating whether to adopt the principle and it is not expected to have a significant effect on the Company s financial statements whether or not it is adopted.

(2) RECENT DEVELOPMENTS, INCLUDING MERGERS AND ACQUISITIONS

On January 24, 2014, BancFirst, a wholly-owned subsidiary of BancFirst Corporation, assumed all of the deposits and purchased certain assets of The Bank of Union, El Reno, Oklahoma (The Bank of Union). The Bank of Union was closed on that day by the Oklahoma State Banking Department.

At the time of the closing, The Bank of Union had total deposits of approximately $302 million that were assumed by BancFirst. BancFirst initially purchased approximately $121 million of loans, the majority of which were classified as performing, $4.8 million of securities, and only $10,000 of other real estate. Its bid included a discount for the loans purchased. BancFirst had bid on, but was generally not awarded, loans that were classified as nonperforming. As a result of the acquisition, the Company recorded core deposit intangibles of approximately $2.2 million and goodwill of $417,000. The acquisition did not have a material effect on the Company s consolidated financial statements.

At June 30, 2014, the balance of acquired loans from the former Bank of Union was approximately $83.6 million, the majority of which are classified as performing, and deposits in acquired branches were approximately $225.6 million.

(3) SECURITIES

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

	June 30, 2014 (Dollars in thousands)
Held for investment, at cost (fair value: $9,386)	$ 9,297
Available for sale, at fair value	561,132
Total	$ 570,429

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

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Mortgage backed securities (1)	$ 533	$ 37	$	$ 570
States and political subdivisions	8,764	52		8,816

Total	$ 9,297	$ 89	$	$ 9,386

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

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
U.S. treasury and other federal agencies	$ 458,976	$ 2,061	$ (212)	$ 460,825
Mortgage backed securities (1)	28,390	678	(508)	28,560
States and political subdivisions	53,652	1,918	(48)	55,522
Other securities (2)	12,126	4,276	(177)	16,225
Total	$ 553,144	$ 8,933	$ (945)	$ 561,132

(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, 2014	
	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Held for Investment		
Contractual maturity of debt securities:		
Within one year	$ 1,586	$ 1,595
After one year but within five years	7,013	7,053
After five years but within ten years	656	693
After ten years	42	45
Total	$ 9,297	$ 9,386
Available for Sale		
Contractual maturity of debt securities:		
Within one year	$ 60,097	$ 60,305
After one year but within five years	367,055	368,721
After five years but within ten years	25,815	26,668
After ten years	91,471	92,697
Total debt securities	544,438	548,391
Equity securities	8,706	12,741

Total	$ 553,144	$ 561,132

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, 2014 (Dollars in thousands)
Book value of pledged securities	$ 415,206

(4) LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a schedule of loans outstanding by category:

	June 30, 2014		December 31, 2013		June 30, 2013	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in thousands)			
Commercial and industrial	$ 677,425	18.48%	$ 605,672	17.88%	$ 529,253	16.31%
Oil & gas production & equipment	110,913	3.03	96,907	2.86	145,735	4.49
Agriculture	102,693	2.80	111,323	3.29	94,337	2.91
State and political subdivisions:						
Taxable	9,346	0.25	10,217	0.30	9,202	0.28
Tax-exempt	10,803	0.29	11,073	0.33	12,392	0.38
Real estate:						
Construction	355,526	9.70	284,808	8.41	247,827	7.64
Farmland	144,519	3.94	132,512	3.91	126,233	3.89
One to four family residences	748,228	20.41	703,903	20.78	697,927	21.51
Multifamily residential properties	60,430	1.65	60,080	1.77	48,128	1.48
Commercial	1,160,079	31.65	1,097,484	32.40	1,070,807	33.00
Consumer	258,745	7.06	250,588	7.40	243,799	7.51
Other (not classified above)	27,201	0.74	22,579	0.67	19,444	0.60
Total loans	$ 3,665,908	100.00%	$ 3,387,146	100.00%	$ 3,245,084	100.00%
Loans held for sale (included above)	$ 9,519		$ 6,469		$ 10,367	

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, 2013.

Nonperforming and Restructured Assets

The following is a summary of nonperforming and restructured assets:

	June 30, 2014	December 31, 2013	June 30, 2013
		(Dollars in thousands)	
Past due 90 days or more and still accruing	$ 1,789	$ 1,179	$ 850
Nonaccrual	17,268	14,390	18,946

Restructured	20,615	17,624	17,903
Total nonperforming and restructured loans	39,672	33,193	37,699
Other real estate owned and repossessed assets	6,406	8,386	8,503
Total nonperforming and restructured assets	$ 46,078	$ 41,579	$ 46,202
Nonperforming and restructured loans to total loans	1.08%	0.98%	1.16%
Nonperforming and restructured assets to total assets	0.72%	0.69%	0.80%

Nonaccrual loans, accruing loans past due 90 days or more, and restructured loans are shown in the table above. Had nonaccrual loans performed in accordance with their original contractual terms, the Company would have recognized additional interest income of approximately $481,000 for the six months ended June 30, 2014 and approximately $978,000 for the six months ended June 30, 2013.

Restructured loans consisted primarily of one relationship restructured to defer principal payments. The relationship 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 is 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.

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, 2014	June 30, 2013
	(Dollars in thousands)	
Non-residential real estate owner occupied	$ 323	$ 516
Non-residential real estate other	5,436	9,195
Residential real estate permanent mortgage	741	741
Residential real estate all other	951	2,837
Non-consumer non-real estate	1,265	1,268
Consumer non-real estate	189	216
Other loans	880	1,938
Acquired loans	7,483	2,235
Total	$ 17,268	$ 18,946

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, 2014						
Non-residential real estate owner occupied	$ 477	$ 264	$ 741	$ 482,081	$ 482,822	$ 60
Non-residential real estate other	5,065	825	5,890	920,264	926,154	
Residential real estate permanent mortgage	2,224	656	2,880	282,749	285,629	180
Residential real estate all other	1,545	892	2,437	598,454	600,891	538
Non-consumer non-real estate	2,059	985	3,044	859,012	862,056	46
Consumer non-real estate	2,256	313	2,569	230,774	233,343	219

Other loans	1,695	356	2,051	146,218	148,269	
Acquired loans	3,506	4,989	8,495	118,249	126,744	746
Total	$ 18,827	$ 9,280	$ 28,107	$ 3,637,801	$ 3,665,908	$ 1,789
As of June 30, 2013						
Non-residential real estate owner occupied	$ 1,848	$ 138	$ 1,986	$ 444,231	$ 446,217	$ 120
Non-residential real estate other	230	3,056	3,286	801,821	805,107	51
Residential real estate permanent mortgage	1,496	566	2,062	249,671	251,733	102
Residential real estate all other	1,494	251	1,745	539,276	541,021	49
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

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 of allowance for loss, 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, 2014				
Non-residential real estate owner occupied	$ 542	$ 476	$ 22	$ 547
Non-residential real estate other	23,886	22,122	1,710	22,305
Residential real estate permanent mortgage	1,117	951	86	931
Residential real estate all other	1,768	1,581	215	1,310
Non-consumer non-real estate	4,407	4,082	512	2,151
Consumer non-real estate	568	553	141	542
Other loans	1,048	880	153	1,000
Acquired loans	19,347	12,872	88	13,152
Total	$ 52,683	$ 43,517	$ 2,927	$ 41,938
As of June 30, 2013				
Non-residential real estate owner occupied	$ 814	$ 748	$ 28	$ 623
Non-residential real estate other	27,297	25,859	2,363	25,885
Residential real estate permanent mortgage	1,510	1,287	64	1,277
Residential real estate all other	3,694	3,294	1,189	3,985
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

Credit Risk Monitoring and Loan Grading

The Company considers various factors to monitor the credit 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.

An internal risk grading system is used to indicate the credit risk of loans. 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 Note (5) to the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

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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, 2014						
Non-residential real estate owner occupied	$ 406,862	$ 69,202	$ 6,375	$ 383	$	$ 482,822
Non-residential real estate other	736,119	165,012	19,587	5,436		926,154
Residential real estate permanent mortgage	253,932	24,765	5,967	965		285,629
Residential real estate all other	501,090	91,707	6,859	1,235		600,891
Non-consumer non-real estate	704,671	115,925	40,135	1,325		862,056
Consumer non-real estate	220,053	11,160	1,637	493		233,343
Other loans	145,004	2,373	615	87	190	148,269
Acquired loans	66,721	42,798	8,679	8,137	409	126,744
Total	$ 3,034,452	$ 522,942	$ 89,854	$ 18,061	$ 599	$ 3,665,908
As of June 30, 2013						
Non-residential real estate owner occupied	$ 381,580	$ 58,923	$ 5,077	$ 637	$	$ 446,217
Non-residential real estate other	650,422	124,831	20,609	9,245		805,107
Residential real estate permanent mortgage	212,230	33,024	5,593	886		251,733
Residential real estate all other	454,987	74,982	8,123	2,929		541,021
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

Allowance for Loan Losses Methodology

The allowance for loan losses (ALL) methodology is disclosed in Footnote (5) to the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

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

	ALL					
	Balance at beginning of period	Charge-offs	Recoveries	Net charge-offs	Provisions charged to operations	Balance at end of period
	(Dollars in thousands)					
Three Months Ended June 30, 2014						
Non-residential real estate owner occupied	$ 5,012	$ (18)	$ 34	$ 16	$ 213	$ 5,241
Non-residential real estate other	10,685				553	11,238
Residential real estate permanent mortgage	3,237	(32)	31	(1)	74	3,310
Residential real estate all other	6,485	(44)	10	(34)	364	6,815
Non-consumer non-real estate	9,703	(61)	16	(45)	2,309	11,967
Consumer non-real estate	2,573	(190)	46	(144)	216	2,645
Other loans	2,072	(188)	110	(78)	(1)	1,993
Acquired loans	157	(148)	678	530	(599)	88
Total	$ 39,924	$ (681)	$ 925	$ 244	$ 3,129	$ 43,297
Six Months Ended June 30, 2014						
Non-residential real estate owner occupied	$ 4,827	$ (22)	$ 65	$ 43	$ 371	$ 5,241
Non-residential real estate other	11,026		3	3	209	11,238
Residential real estate permanent mortgage	2,825	(162)	41	(121)	606	3,310
Residential real estate all other	6,708	(93)	14	(79)	186	6,815
Non-consumer non-real estate	8,977	(131)	30	(101)	3,091	11,967
Consumer non-real estate	2,556	(331)	108	(223)	312	2,645
Other loans	1,991	(251)	127	(124)	126	1,993
Acquired loans	124	(165)	683	518	(554)	88
Total	$ 39,034	$ (1,155)	$ 1,071	$ (84)	$ 4,347	$ 43,297

	ALL					
	Balance at beginning of period	Charge-offs	Recoveries	Net charge-offs	Provisions charged to operations	Balance at end of period
	(Dollars in thousands)					
Three Months Ended June 30, 2013						
Allowance for loan losses:						
Non-residential real estate owner occupied	$ 4,866	$ (2)	$ 1	$ (1)	$ (151)	$ 4,714
Non-residential real estate other	10,465	(1)	6	5	396	10,866
Residential real estate permanent mortgage	2,756	(40)	4	(36)	13	2,733
Residential real estate all other	7,165	(59)	25	(34)	218	7,349
Non-consumer non-real estate	8,982	(69)	18	(51)	(180)	8,751
Consumer non-real estate	2,384	(155)	61	(94)	99	2,389
Other loans	1,822	(20)	31	11	128	1,961
Acquired loans	224	(1)	3	2	(7)	219
Total	$ 38,664	$ (347)	$ 149	$ (198)	$ 516	$ 38,982
Six Months Ended June 30, 2013						
Non-residential real estate owner occupied	$ 5,104	$ (2)	$ 16	$ 14	$ (404)	$ 4,714
Non-residential real estate other	9,865	(19)	10	(9)	1,010	10,866
Residential real estate permanent mortgage	2,781	(96)	15	(81)	33	2,733
Residential real estate all other	7,034	(154)	27	(127)	442	7,349
Non-consumer non-real estate	9,385	(105)	49	(56)	(578)	8,751
Consumer non-real estate	2,451	(295)	137	(158)	96	2,389
Other loans	1,885	(159)	31	(128)	204	1,961
Acquired loans	220	(50)	36	(14)	13	219
Total	$ 38,725	$ (880)	$ 321	$ (559)	$ 816	$ 38,982

The following table details the amount of ALL by class of loans for the period presented, detailed on the basis of the impairment methodology used by the Company.

	ALL			
	June 30, 2014		June 30, 2013	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
	(Dollars in thousands)			
Non-residential real estate owner occupied	$ 372	$ 4,869	$ 217	$ 4,497
Non-residential real estate other	1,881	9,357	2,663	8,203
Residential real estate permanent mortgage	539	2,771	222	2,511
Residential real estate all other	736	6,079	1,794	5,555
Non-consumer non-real estate	3,567	8,400	1,124	7,627
Consumer non-real estate	417	2,228	265	2,124
Other loans	190	1,803	231	1,730
Acquired loans		88		219

Total	$ 7,702	$ 35,595	$ 6,516	$ 32,466

The following table details the loans outstanding by class of loans for the period presented, on the basis of the impairment methodology used by the Company.

	Loans					
	June 30, 2014			June 30, 2013		
	Individually evaluated for impairment	Collectively evaluated for impairment	Loans acquired with deteriorated credit quality	Individually evaluated for impairment	Collectively evaluated for impairment	Loans acquired with deteriorated credit quality
	(Dollars in thousands)					
Non-residential real estate owner occupied	$ 6,758	$ 476,064	$	$ 5,713	$ 440,503	$
Non-residential real estate other	25,023	901,131		29,855	775,253	
Residential real estate permanent mortgage	6,932	278,697		6,479	245,254	
Residential real estate all other	8,094	592,797		11,052	529,969	
Non-consumer non-real estate	41,460	820,596		6,075	743,587	
Consumer non-real estate	2,130	231,213		2,205	215,175	
Other loans	324	147,945		280	147,225	
Acquired loans		109,519	17,225		80,008	6,451
Total	$ 90,721	$ 3,557,962	$ 17,225	$ 61,659	$ 3,176,974	$ 6,451

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,	
	2014	2013
	(Dollars in thousands)	
Other real estate owned	$ 525	$ 896
Repossessed assets	722	594
Total	$ 1,247	$ 1,490

(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, 2014			
Core deposit intangibles	$ 13,198	$ (5,305)	$ 7,893
Customer relationship intangibles	5,699	(2,518)	3,181
Mortgage servicing intangibles	672	(172)	500
Total	$ 19,569	$ (7,995)	$ 11,574

The following is a summary of goodwill by business segment:

	Metropolitan Banks	Community Banks	Other Financial Services	Executive, Operations & Support	Consolidated
	(Dollars in thousands)				
Balance at December 31, 2013	$ 8,079	$ 30,552	$ 5,464	$ 450	$ 44,545
Acquisitions		417			417
Balance at June 30, 2014	$ 8,079	$ 30,969	$ 5,464	$ 450	$ 44,962

Additional information for intangible assets can be found in Note (7) to the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

(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, 2014, 135,860 shares were available for future grants. The BancFirst ISOP will terminate on December 31, 2019. 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, 2014 will become exercisable through the year 2021. 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 230,000 shares in May 2014. At June 30, 2014, 30,000 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, 2014 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, 2014					
Outstanding at December 31, 2013	1,158,317	$	34.45		
Options granted	10,000		58.61		
Options exercised	(63,625)		25.80		
Options canceled, forfeited, or expired					
Outstanding at June 30, 2014	1,104,692		35.16	8.62Yr	$ 29,667
Exercisable at June 30, 2014	516,042		28.77	4.98Yr	$ 17,094

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,	
	2014	2013	2014	2013
	(Dollars in thousands, except per share data)			
Weighted average grant-date fair value per share of options granted	$ 12.33	$ 8.74	$ 12.33	$ 8.74
Total intrinsic value of options exercised	1,301	1,024	2,046	1,230
Cash received from options exercised	776	1,059	1,642	1,201
Tax benefit realized from options exercised	503	396	791	476

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,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Stock-based compensation expense	$ 429	$ 321	$ 776	$ 695
Tax benefit	(166)	(124)	(300)	(269)
Stock-based compensation expense, net of tax	$ 263	$ 197	$ 476	$ 426

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, 2014
	(Dollars in thousands)
Fair value of stock options	$ 4,549

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

	Six Months Ended June 30,	
	2014	2013
Risk-free interest rate	2.54%	2.53%
Dividend yield	2.00%	2.00%

Stock price volatility	18.98%	18.36%
Expected term	10Yrs	10Yrs

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,	
	2014	**2013**	**2014**	**2013**
Number of shares repurchased		17,191		40,241
Average price of shares repurchased		$ 40.83		$ 40.88
Shares remaining to be repurchased	194,723	194,723	194,723	194,723

The Company and BancFirst are subject to risk-based capital guidelines issued by the Board of Governors of the Federal Reserve System and the 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 that as of June 30, 2014, the Company and BancFirst met all capital adequacy requirements to which they are subject. The actual and required capital amounts and ratios are shown in the following table:

	Actual		Required 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, 2014:						
Total Capital (to Risk Weighted Assets)-						
BancFirst Corporation	$ 575,607	14.47%	$ 325,487	8.00%	N/A	N/A
BancFirst	553,957	13.55%	324,918	8.00%	$ 406,147	10.00%
Tier 1 Capital (to Risk Weighted Assets)-						
BancFirst Corporation	$ 545,570	13.41%	$ 162,744	4.00%	N/A	N/A
BancFirst	507,016	12.48%	162,459	4.00%	$ 243,688	6.00%
Tier 1 Capital (to Total Assets)-						
BancFirst Corporation	$ 545,570	8.64%	$ 191,060	3.00%	N/A	N/A
BancFirst	507,016	8.05%	190,452	3.00%	$ 317,420	5.00%

As of June 30, 2014, 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 Capital (to Risk-Weighted Assets) of at least 6%, a combined Total Capital (to Risk Weighted Assets) of at least 10%, and a Tier 1 Capital (to Total Assets) 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, 2014, 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, 2014			
Basic			
Income available to common stockholders	$ 14,688	15,468,511	$ 0.94
Effect of stock options		363,669	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$ 14,688	15,832,180	$ 0.92
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	$ 0.82
Six Months Ended June 30, 2014			
Basic			
Income available to common stockholders	$ 29,345	15,405,847	$ 1.90
Effect of stock options		353,942	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$ 29,345	15,759,789	$ 1.86
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

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, 2014	59,286	$ 54.89
Three Months Ended June 30, 2013	466,159	39.76
Six Months Ended June 30, 2014	67,155	54.15
Six Months Ended June 30, 2013	475,867	39.69

(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, registered 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 private label mortgage backed securities and 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. 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, 2014 and 2013, 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, 2014				
Securities available for sale:				
U.S. Treasury	$ 229,549	$	$	$ 229,549
U.S. federal agencies		231,276		231,276
Mortgage-backed securities		11,471	17,089	28,560
States and political subdivisions		55,522		55,522
Other securities		3,484	12,741	16,225
Derivative assets		3,653		3,653
Derivative liabilities		2,084		2,084
Loans held for sale		9,519		9,519
Mortgage servicing intangibles			500	500
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		10,367		10,367
Mortgage servicing intangibles			638	638

The changes in Level 3 assets measured at estimated fair value on a recurring basis during the six months ended June 30, 2014 and 2013 were as follows:

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(Dollars in thousands)	
Balance at the beginning of the year	$ 32,002	$ 10,779
Purchases, issuances and settlements	(2,287)	239
Sales	(499)	(121)
Gains included in earnings	382	5
Total unrealized gains (losses)	732	(437)
Balance at the end of the period	$ 30,330	$ 10,465

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, 2014 and 2013, 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. In no case does the fair value of an impaired loan exceed the fair value of the underlying collateral. The impaired loans are adjusted to fair value through a specific allocation of the allowance for loan losses or a direct charge-down of the loan.

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)		
<u>Six Months Ended June 30, 2014</u>					
Impaired loans (less specific allowance)			$ 40,590	$ 40,590	$

Foreclosed assets	292	292	(23)
Other real estate owned	6,114	6,114	(71)
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)

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 that are reported at amortized cost in the Company s consolidated balance sheets, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value, are as follows:

	June 30,			
	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
FINANCIAL ASSETS				
Level 2 inputs:				
Cash and cash equivalents	$ 1,856,437	$ 1,856,437	$ 1,720,239	$ 1,720,239
Securities held for investment	9,297	9,386	14,511	14,654
Level 3 inputs:				
Loans, net	3,622,611	3,661,752	3,206,102	3,238,652
FINANCIAL LIABILITIES				
Level 2 inputs:				
Deposits	5,721,593	5,754,876	5,150,411	5,175,528
Short-term borrowings	12,317	12,317	3,522	3,522
Long-term borrowings			9,964	9,906
Junior subordinated debentures	26,804	28,948	26,804	28,991
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS				
Loan commitments		1,791		1,574
Letters of credit		426		437

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, 2014 or 2013.

(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:

Oil and Natural Gas Swaps and Options	Notional Units	June 30, 2014 Notional Amount	Estimated Fair Value
	(Notional amounts and dollars in thousands)		
Oil			
Derivative assets	Barrels	452	$ 1,701
Derivative liabilities	Barrels	(452)	(1,207)
Natural Gas			
Derivative assets	MMBTUs	1,625	1,952
Derivative liabilities	MMBTUs	(1,625)	(877)
Total Fair Value	**Included in**		
Derivative assets	Other assets		3,653
Derivative liabilities	Other liabilities		2,084

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,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Derivative income	$ 149	$ 130	$ 298	$ 238

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 customers:

	June 30, 2014
	(Dollars in thousands)
Credit exposure	$ 3,499

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.

(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, 2014						
Net interest income (expense)	$ 15,372	$ 28,955	$ 1,568	$ (406)	$	$ 45,489
Noninterest income	3,463	12,973	6,329	15,919	(15,073)	23,611
Income before taxes	7,484	17,692	2,292	7,680	(15,034)	20,114
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
Six Months Ended:						
June 30, 2014						
Net interest income (expense)	$ 29,159	$ 56,196	$ 2,944	$ (781)	$	$ 87,518
Noninterest income	6,876	25,239	13,385	31,874	(30,201)	47,173
Income before taxes	15,274	32,769	5,358	17,359	(30,109)	40,651
June 30, 2013						
Net interest income (expense)	$ 27,954	$ 50,568	$ 3,295	$ (931)	$	$ 80,886
Noninterest income	6,306	23,391	12,975	28,541	(26,945)	44,268
Income before taxes	17,045	28,589	5,395	15,737	(26,827)	39,939
Total Assets:						
June 30, 2014	$ 2,142,031	$ 4,087,728	$ 116,343	$ 657,743	$ (635,212)	$ 6,368,633
December 31, 2013	2,079,444	3,764,429	103,656	703,294	(611,849)	6,038,974
June 30, 2013	1,945,032	3,590,420	93,047	706,501	(585,334)	5,749,666

The financial information for each business unit is presented on the basis used internally by management to evaluate performance and allocate resources. The Company utilizes a transfer pricing system to allocate the benefit or cost of funds provided or used by the various business units. Certain services provided by the support group to other business units, such as item processing, are allocated at rates approximating the cost of providing the services. Eliminations are adjustments to consolidate the business units and companies. Capital expenditures are generally charged to the business unit using the asset.

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

The following discussion and analysis presents factors that the Company believes are relevant to an assessment and understanding of the Company s consolidated financial position and results of operations. This discussion and analysis should be read in conjunction with the Company s December 31, 2013 consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013 and the Company s consolidated financial statements and the related Notes included in Item 1.

FORWARD LOOKING STATEMENTS

The Company may make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 with respect to earnings, credit quality, corporate objectives, interest rates and other financial and business matters. Forward-looking statements include estimates and give management s current expectations or forecasts of future events. The Company cautions readers that these forward-looking statements are subject to numerous assumptions, risks and uncertainties, including economic conditions; the performance of financial markets and interest rates; legislative and regulatory actions and reforms; competition; as well as other factors, all of which change over time. Actual results may differ materially from forward-looking statements.

SUMMARY

BancFirst Corporation s net income was $14.7 million, or $0.92 diluted earnings per share, for the second quarter of 2014, compared to net income of $12.6 million, or $0.82 diluted earnings per share, for the second quarter of 2013. Net income was $29.3 million, or $1.86 diluted earnings per share for the six months ended June 30, 2014, compared to $26.0 million, or $1.68 diluted earnings per share, for the six months ended June 30, 2013.

Net interest income for the second quarter of 2014 was $45.5 million compared to $40.6 million for the three months ended June 30, 2013. The net interest margin for the quarter remained relatively flat at 3.10% compared to 3.08% a year ago, as interest rates have remained at historically low levels. The provision for loan losses for the second quarter was $3.1 million compared to $516,000 for the second quarter of 2013. The higher provision for loan losses in the second quarter was due in part to an additional $2 million allowance for a single commercial loan that was adversely graded during the quarter. The Company reported net recoveries for the quarter of 0.01% of average loans, compared to net charge-offs 0.01% for the same period the prior year. Noninterest income for the quarter totaled $23.6 million compared to $21.7 million for the second quarter of 2013. Noninterest expense was $45.9 million compared to $42.5 million a year ago. The effective income tax rate for the second quarter of 2014 decreased to 27% compared to 35% for the second quarter of 2013, primarily due to an investment in federal and state historic rehabilitation tax credits.

At June 30, 2014, the Company s total assets were $6.4 billion, up $329.7 million or 5.5% from $6.0 billion at December 31, 2013. Securities increased $42.8 million to a total of $570.4 million. Loans totaled $3.7 billion, up $278.8 million from December 31, 2013. Deposits totaled $5.7 billion, up $302.1 million. The Company s total stockholders equity was $580.5 million, an increase of $23.5 million or 4.2% over December 31, 2013.

The Company s asset quality remained strong. Nonperforming and restructured assets were 0.72% of total assets compared to 0.69% at December 31, 2013. The allowance to total loans was 1.18% compared to 1.15% at year end 2013.

On January 24, 2014, BancFirst, a wholly-owned subsidiary of BancFirst Corporation, assumed all of the deposits and purchased certain assets of The Bank of Union, El Reno, Oklahoma (The Bank of Union). The Bank of Union was closed on that day by the Oklahoma State Banking Department. At June 30, 2014, the balance of acquired loans was approximately $83.6 million, the majority of which are classified as performing; and deposits in the acquired branches were approximately $225.6 million. As a result of the acquisition, the Company recorded core deposit intangibles of approximately $2.2 million and goodwill of $417,000.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

See Note (1) of the Notes to Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

SEGMENT INFORMATION

See Note (11) of the Notes to Consolidated Financial Statements for disclosures regarding business segments.

RESULTS OF OPERATIONS

Selected income statement data and other selected data for the comparable periods were as follows:

BANCFIRST CORPORATION

SELECTED CONSOLIDATED FINANCIAL DATA

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Income Statement Data				
Net interest income	$ 45,489	$ 40,630	$ 87,518	$ 80,866
Provision for loan losses	3,129	516	4,347	816
Securities transactions	85	129	535	251
Total noninterest income	23,611	21,733	47,173	44,268
Salaries and employee benefits	27,478	25,085	53,416	50,294
Total noninterest expense	45,857	42,455	89,693	84,399
Net income	14,688	12,593	29,345	25,965
Per Common Share Data				
Net income basic	$ 0.94	$ 0.83	$ 1.90	$ 1.70
Net income diluted	0.92	0.82	1.86	1.68
Cash dividends	0.31	0.29	0.62	0.58
Performance Data				
Return on average assets	0.92%	0.88%	0.94%	0.91%
Return on average stockholders equity	10.20	9.48	10.35	9.89
Cash dividend payout ratio	32.99	35.08	32.55	34.03
Net interest spread	2.96	2.92	2.90	2.92
Net interest margin	3.10	3.08	3.04	3.08
Efficiency ratio	66.36	68.08	66.59	67.44
Net charge-offs to average loans	(0.01)	0.01		0.02

Net Interest Income

For the three months ended June 30, 2014, net interest income, which is the Company s principal source of operating revenue, increased to $45.5 million compared to $40.6 million for the three months ended June 30, 2013, primarily due to a higher volume of earning assets. Net interest margin is the ratio of taxable-equivalent net interest income to average earning assets for the period. The Company s net interest margin remained relatively flat for the second quarter of 2014 compared to the second quarter of 2013, due to continued historically low interest rates. If interest rates and/or loan volume do not increase, management expects continued compression of its net interest margin for the remainder of 2014 as higher yielding loans mature and are replaced at current market rates.

Net interest income for the six months ended June 30, 2014 was $87.5 million compared to $80.9 million for the six months ended June 30, 2013. The net interest margin for the year-to-date decreased slightly compared to the same period of the previous year, as shown in the preceding table.

Provision for Loan Losses

The Company s provision for loan losses for the second quarter of 2014 was $3.1 million, compared to $516,000 for the second quarter of 2013. The higher provision for loan losses in the second quarter was due in part to an additional $2 million allowance for a single commercial loan that was adversely graded during the quarter. The Company establishes an allowance as an estimate of the probable inherent losses in the loan portfolio at the balance sheet date. Management believes the allowance for loan losses is appropriate based upon management s best estimate of probable losses that have been incurred within the existing loan portfolio. Should any of the factors considered by management in evaluating the appropriate level of the allowance for loan losses change, the Company s estimate of probable loan losses could also change, which could affect the amount of future provisions for loan losses. The Company reported net loan recoveries of $244,000 for the second quarter of 2014, compared to net loan charge-offs of $198,000 for the second quarter of 2013. The rate of net charge-offs to average total loans, as presented in the preceding table, continues to be at a very low level.

For the six months ended June 30, 2014, the Company s provision for loan losses was $4.3 million, compared to $816,000 for the six months ended June 30, 2013. Net loan charge-offs were $84,000, compared to $559,000 for the same period of the prior year.

Noninterest Income

Noninterest income totaled $23.6 million for the second quarter of 2014 compared to $21.7 million for the second quarter of 2013. Service charges on deposits have increased due primarily to an increase in deposit accounts from internal growth. Fees from debit card usage totaled $5.2 million and $4.4 million during the three months ended June 30, 2014 and 2013, respectively. Trust revenue and cash management revenue also increased due to growth in the number of customers and increased activity.

Noninterest income for the six months ended June 30, 2014 totaled $47.2 million compared to $44.3 million for the six months ended June 30, 2013. Service charges on deposits have increased due primarily to an increase in deposit accounts from internal growth. Fees from debit card usage totaled $10.2 million and $8.5 million during the six months ended June 30, 2014 and 2013, respectively. Trust revenue and cash management revenue also increased due to growth in the number of customers and increased activity.

Noninterest Expense

For the second quarter of 2014, noninterest expense totaled $45.9 million compared to $42.5 million for the second quarter of 2013. The increase in noninterest expense was partly due to the acquisition of The Bank of Union, which added $1.6 million in the quarter partly offset by a gain on sale of other real estate owned property of approximately $500,000.

For the six months ended June 30, 2014, noninterest expense totaled $89.7 million compared to $84.4 million for the six months ended June 30, 2013. The increase in noninterest expense was partly due to the acquisition of The Bank of Union, which added $2.0 million in the first half partly offset by a gain on sale of other real estate owned property of approximately $500,000. Increases in salaries and benefits, primarily due to the impact of standard annual merit increases, were partly offset by lower than anticipated health care costs of approximately $950,000 in the first quarter of 2014.

Income Taxes

The Company s effective tax rate on income before taxes was 27.0% for the three months ended June 30, 2014, compared to 35.1% for the three months ended June 30, 2013 due primarily to new tax credits utilized.

The Company s effective tax rate on income before taxes was 27.8% for the first six months of 2014, compared to 35.0% for the first six months of 2013 due primarily to new tax credits utilized in the second quarter and the recognition of state deferred tax benefits in the first quarter.

FINANCIAL POSITION

BANCFIRST CORPORATION

SELECTED CONSOLIDATED FINANCIAL DATA

(Dollars in thousands, except per share data)

	June 30, 2014 (unaudited)	December 31, 2013	June 30, 2013 (unaudited)
Balance Sheet Data			
Total assets	$ 6,368,633	$ 6,038,974	$ 5,749,666
Total loans	3,665,908	3,387,146	3,245,084
Allowance for loan losses	43,297	39,034	38,982
Securities	570,429	527,627	520,424
Deposits	5,721,593	5,419,519	5,150,411
Stockholders equity	580,505	556,997	534,961
Book value per share	37.70	36.33	35.07
Tangible book value per share	34.03	32.75	31.42
Average loans to deposits (year-to-date)	62.39%	62.69%	62.58%
Average earning assets to total assets (year-to-date)	92.57	92.65	92.72
Average stockholders equity to average assets (year-to-date)	9.07	9.23	9.21
Asset Quality Ratios			
Nonperforming and restructured loans to total loans	1.08%	0.98%	1.16%
Nonperforming and restructured assets to total assets	0.72	0.69	0.80
Allowance for loan losses to total loans	1.18	1.15	1.20
Allowance for loan losses to nonperforming and restructured loans	109.14	117.60	103.40

Cash, Federal Funds Sold and Interest-Bearing Deposits with Banks

The aggregate of cash and due from banks, interest-bearing deposits with banks, and federal funds sold as of June 30, 2014 decreased $1.1 million from December 31, 2013 and increased $136.2 million from June 30, 2013. Federal funds sold consist of overnight investments of excess funds with other financial institutions. Due to the Federal Reserve Bank s intervention into the funds market that has resulted in near zero overnight federal funds rates, the Company has continued to maintain the majority of its excess funds with the Federal Reserve Bank. The Federal Reserve Bank pays interest on these funds based upon the lowest target rate for the maintenance period which continues to be 0.25%.

Securities

At June 30, 2014, total securities increased $42.8 million compared to December 31, 2013 and increased $50.0 million compared to June 30, 2013. The size of the Company s securities portfolio is determined by the Company s liquidity and asset/liability management. The net unrealized gain on securities available for sale, before taxes, was $8.0 million at June 30, 2014, compared to an unrealized gain of $6.0 million at December 31, 2013, and an unrealized gain of $6.5

million at June 30, 2013. These unrealized gains are included in the Company s stockholders equity as accumulated other comprehensive income, net of income tax, in the amounts of $4.9 million, $3.9 million and $4.2 million respectively.

Loans (Including Acquired Loans)

At June 30, 2014, total loans were up $278.8 million from December 31, 2013 and up $420.8 million from June 30, 2013, due to internal growth and loans from the Bank of Union acquisition, which had $83.6 million at June 30, 2014.

Allowance for Loan Losses/Fair Value Adjustments on Acquired Loans

At June 30, 2014, the allowance for loan losses represented 1.18% of total loans, compared to 1.15% at December 31, 2013 and 1.20% at June 30, 2013.

The fair value adjustment on acquired loans consists of an interest rate component to adjust the effective rates on the loans to market rates and a credit component to adjust for estimated credit exposures in the acquired loans. The credit component of the adjustment was $8.6 million at June 30, 2014, $2.3 million at December 31, 2013 and $2.6 million at June 30, 2013, while the acquired loans outstanding were $126.7 million, $65.9 million and $86.5 million, respectively. The increase during 2014 was due to the Bank of Union acquisition. The decrease in 2013 was due to improved credit quality of the loans and loan payoffs.

Nonperforming and Restructured Assets

Nonperforming and restructured assets totaled $46.1 million at June 30, 2014, compared to $41.6 million at December 31, 2013 and $46.2 million at June 30, 2013. The Company s level of nonperforming and restructured assets has continued to be relatively low.

Nonaccrual loans totaled $17.3 million at June 30, 2014 compared to $14.4 million at the end of 2013. Nonaccrual loans increased in 2014 due primarily to the acquisition of nonperforming loans from The Bank of Union. The Company s nonaccrual loans are primarily commercial and real estate loans. Nonaccrual loans negatively impact the Company s net interest margin. A loan is placed on nonaccrual status when, in the opinion of management, the future collectability of interest or principal or both is in serious doubt. Interest income is recognized on certain of these loans on a cash basis if the full collection of the remaining principal balance is reasonably expected. Otherwise, interest income is not recognized until the principal balance is fully collected. Total interest income, which was not accrued on nonaccrual loans outstanding, was approximately $481,000 for the six months ended June 30, 2014 and $978,000 for the six months ended June 30, 2013. Only a small amount of this interest is expected to be ultimately collected.

Other real estate owned and repossessed assets declined $6.4 million at June 30, 2014, compared to $8.4 million at December 31, 2013 and $8.5 million at June 30, 2013 due to the sale of a property.

Potential problem loans are performing loans to borrowers with a weakened financial condition, or which are experiencing unfavorable trends in their financial condition, which causes management to have concerns as to the ability of such borrowers to comply with the existing repayment terms. The Company had approximately $35.3 million of these loans at June 30, 2014 compared to $6.2 million at December 31, 2013 and $3.2 million at June 30, 2013. Potential problem loans are not included in nonperforming and restructured loans. In general, these loans are adequately collateralized and have no specific identifiable probable loss. Loans which are considered to have identifiable probable loss potential are placed on nonaccrual status, are allocated a specific allowance for loss or are directly charged-down, and are reported as nonperforming. The higher level of potential problem loans in the second quarter was due primarily to an additional $28.4 million for a single commercial loan that was experiencing financial difficulty during the quarter, but was not considered impaired.

Liquidity and Funding

Deposits

At June 30, 2014, total deposits increased $302.1 million compared to December 31, 2013 and increased $571.2 million compared to June 30, 2013. The branches acquired from the former Bank of Union had $225.6 million in deposits at June 30, 2014. The Company s core deposits provide it with a stable, low-cost funding source. The Company s core deposits as a percentage of total deposits were 93.7% at June 30, 2014, compared to 93.5% at December 31, 2013 and 93.0% June 30, 2013. Noninterest-bearing deposits to total deposits were 38.5% at June 30, 2014, and December 31, 2013, compared to and 38.0% at June 30, 2013.

Short-Term Borrowings

Short-term borrowings consisting primarily of federal funds purchased and repurchase agreements are another source of funds for the Company. The level of these borrowings is determined by various factors, including customer demand and the Company s ability to earn a favorable spread on the funds obtained. Short-term borrowings were $12.3 million at June 30, 2014, compared to $4.6 million at December 31, 2013 and $3.5 million at June 30, 2013.

Long-Term Borrowings

The Company does not have any borrowings from the Federal Home Loan Bank (FHLB) of Topeka, Kansas as of June 30, 2014. The Company had $6.9 million of FHLB borrowings at December 31, 2013 and $10.0 million at June 30, 2013, which matured during the first half of 2014.

There have not been material changes from the liquidity and funding discussion included in Management s Discussion and Analysis in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

Capital Resources

Stockholders equity totaled $580.5 million at June 30, 2014, compared to $557.0 million at December 31, 2013 and $535.0 million at June 30, 2013. In addition to net income of $29.3 million, other changes in stockholders equity during the six months ended June 30, 2014 included $1.9 million related to stock option exercises, $776,000 related to stock-based compensation and an $992,000 increase in other comprehensive income, that were offset by $9.5 million in dividends. The Company s tier 1 capital (to total assets) and total capital (to risk weighted assets) were 8.64% and 14.47%, respectively, at June 30, 2014, well in excess of the regulatory minimums.

See Note (7) of the Notes to Consolidated Financial Statements for a discussion of capital ratio requirements.

CONTRACTUAL OBLIGATIONS

There have not been any material changes in the resources required for scheduled repayments of contractual obligations from the table of Contractual Cash Obligations included in Management s Discussion and Analysis which was included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

BANCFIRST CORPORATION

CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST MARGIN ANALYSIS

(Unaudited)

Taxable Equivalent Basis (Dollars in thousands)

	Three Months Ended June 30,					
	2014			2013		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
ASSETS						
Earning assets:						
Loans (1)	$ 3,602,491	$ 45,929	5.11%	$ 3,235,966	$ 41,568	5.15%
Securities taxable	530,482	1,502	1.14	515,010	1,295	1.01
Securities tax exempt	40,870	421	4.13	42,801	483	4.53
Interest bearing deposits w/ banks & FFS	1,748,422	1,096	0.25	1,527,172	971	0.25
Total earning assets	5,922,265	48,948	3.32	5,320,949	44,317	3.34
Nonearning assets:						
Cash and due from banks	184,984			150,781		
Interest receivable and other assets	323,312			310,034		
Allowance for loan losses	(40,567)			(38,776)		
Total nonearning assets	467,729			422,039		
Total assets	$ 6,389,994			$ 5,742,988		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Transaction deposits	$ 810,729	$ 208	0.10%	$ 657,540	$ 163	0.10%
Savings deposits	1,975,496	1,113	0.23	1,791,912	1,013	0.23
Time deposits	804,779	1,412	0.70	803,750	1,713	0.86
Short-term borrowings	10,270	5	0.20	3,970	1	0.12
Long-term borrowings	1,308	7	2.22	10,957	62	2.27
Junior subordinated debentures	26,804	492	7.37	26,804	491	7.35
Total interest bearing liabilities	3,629,386	3,237	0.36	3,294,933	3,443	0.42
Interest free funds:						
Noninterest bearing deposits	2,159,268			1,892,014		
Interest payable and other liabilities	23,769			22,988		
Stockholders equity	577,571			533,053		

Total interest free funds	2,760,608		2,448,055	
Total liabilities and stockholders equity	$ 6,389,994		$ 5,742,988	
Net interest income	$ 45,711		$ 40,874	
Net interest spread		2.96%		2.92%
Effect of interest free funds		0.14%		0.16%
Net interest margin		3.10%		3.08%

(1) Nonaccrual loans are included in the average loan balances and any interest on such nonaccrual loans is recognized on a cash basis.

BANCFIRST CORPORATION

CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST MARGIN ANALYSIS

(Unaudited)

Taxable Equivalent Basis (Dollars in thousands)

	Six Months Ended June 30,					
	2014			2013		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
ASSETS						
Earning assets:						
Loans (1)	$ 3,542,572	$ 88,643	5.05%	$ 3,227,777	$ 82,823	5.17%
Securities taxable	507,817	2,807	1.11	519,671	2,648	1.03
Securities tax exempt	41,037	851	4.18	43,897	1,015	4.66
Interest bearing deposits w/ banks & FFS	1,744,071	2,191	0.25	1,539,136	1,949	0.26
Total earning assets	5,835,497	94,492	3.27	5,330,481	88,435	3.35
Nonearning assets:						
Cash and due from banks	192,538			147,876		
Interest receivable and other assets	315,690			309,287		
Allowance for loan losses	(39,916)			(38,711)		
Total nonearning assets	468,312			418,452		
Total assets	$ 6,303,809			$ 5,748,933		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest bearing liabilities:						
Transaction deposits	$ 785,675	$ 406	0.10%	$ 666,646	$ 330	0.10%
Savings deposits	1,966,302	2,216	0.23	1,786,325	2,093	0.24
Time deposits	802,927	2,900	0.73	814,879	3,506	0.87
Short-term borrowings	7,892	7	0.18	4,367	3	0.13
Long-term borrowings	3,297	25	1.53	9,769	124	2.55
Junior subordinated debentures	26,804	983	7.39	26,804	982	7.38
Total interest bearing liabilities	3,592,897	6,537	0.37	3,308,790	7,038	0.43
Interest free funds:						
Noninterest-bearing deposits	2,123,644			1,889,960		
Interest payable and other liabilities	15,635			20,751		
Stockholders equity	571,633			529,432		

Total interest free funds	2,710,912		2,440,143	
Total liabilities and stockholders equity	$ 6,303,809		$ 5,748,933	
Net interest income		$ 87,955		$ 81,397
Net interest spread		2.90%		2.92%
Effect of interest free funds		0.14%		0.16%
Net interest margin		3.04%		3.08%

(1) Nonaccrual loans are included in the average loan balances and any interest on such nonaccrual loans is recognized on a cash basis.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes in the Registrant s disclosures regarding market risk since December 31, 2013, the date of its most recent annual report to stockholders.

Item 4. Controls and Procedures.

The Company s Chief Executive Officer, Interim Chief Financial Officer and Chief Risk Officer and Disclosure Committee, which includes the Company s Chief Asset Quality Officer, Chief Internal Auditor, Senior Financial Officer, Treasurer, Controller, and General Counsel, have evaluated, as of the last day of the period covered by this report, the Company s disclosure controls and procedures. Based on their evaluation they concluded that the disclosure controls and procedures of the Company are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms.

No changes were made to the Company s internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

The Company has been named as a defendant in various legal actions arising from the conduct of its normal business activities. Although the amount of any liability that could arise with respect to these actions cannot be accurately predicted, in the opinion of the Company, any such liability will not have a material adverse effect on the consolidated financial statements of the Company.

Item 1A. Risk Factors.

As of June 30, 2014, there have been no material changes from the risk factors previously disclosed in Part I, Item 1A, of the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibit Number	Exhibit
3.1	Second Amended and Restated Certificate of Incorporation of BancFirst Corporation (filed as Exhibit 1 to the Company s 8-A/A filed July 23, 1998 and incorporated herein by reference).
3.2	Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of BancFirst Corporation dated June 15, 2004 (filed as Exhibit 3.5 to the Company s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2004 and incorporated herein by reference).
3.3	Amended By-Laws (filed as Exhibit 3.2 to the Company s Annual Report on Form 10-K for the Year Ended December 31, 1992 and incorporated herein by reference).
3.4	Resolution of the Board of Directors amending Section XXVII of the Company s By-Laws (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K dated February 26, 2004 and incorporated herein by reference).
3.5	Amendment to Amended By-Laws, amending Article XVI, Section 1 and Article XVII, Section 1 of the Company s By-Laws (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K dated February 28, 2008 and incorporated herein by reference).
3.6	Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of BancFirst Corporation dated May 23, 2013 (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K dated May 29, 2013 and incorporated herein by reference).
4.1	Instruments defining the rights of securities holders (see Exhibits 3.1, 3.2, 3.3 and 3.4 above).
4.2	Rights Agreement, dated as of February 25, 1999, between BancFirst Corporation and BancFirst, as Rights Agent, including as Exhibit A the form of Certificate of Designations of the Company setting forth the terms of the Preferred Stock, as Exhibit B the form of Right Certificate and as Exhibit C the form of Summary of Rights Agreement (filed as Exhibit 4.1 to the Company s 8-K dated January 28, 2009 and incorporated herein by reference).
4.3	Amendment No. 1 to Rights Agreement, dated as of February 25, 1999, between BancFirst Corporation and BancFirst, as Rights Agent (filed as Exhibit 4.2 to the Company s 8-K dated January 28, 2009 and incorporated herein by reference).
4.4	Form of Amended and Restated Trust Agreement relating to the 7.20% Cumulative Trust Preferred Securities of BFC Capital Trust II (filed as Exhibit 4.5 to the Company s registration statement on Form S-3/A, File No. 333-112488 dated February 23, 2004, and incorporated herein by reference).
4.5	Form of 7.20% Cumulative Trust Preferred Security Certificate for BFC Capital Trust II (filed as Exhibit D to Exhibit 4.5 to the Company s registration statement on Form S-3/A, File No. 333-112488 dated February 23, 2004, and incorporated herein by reference).
4.6	Form of Indenture relating to the 7.20% Junior Subordinated Deferrable Interest Debentures of BancFirst Corporation issued to BFC Capital Trust II (filed as Exhibit 4.1 on Form S-3 to the Company s registration statement, File No. 333-112488 dated February 4, 2004, and incorporated herein by reference).
4.7	Form of Certificate of 7.20% Junior Subordinated Deferrable Interest Debenture of BancFirst

	Corporation (filed as Exhibit 4.2 on Form S-3 to the Company s registration statement, File No. 333-112488 dated February 4, 2004, and incorporated herein by reference).
4.8	Form of Guarantee of BancFirst Corporation relating to the 7.20% Cumulative Trust Preferred Securities of BFC Capital Trust II (filed as Exhibit 4.7 to the Company s registration statement on Form S-3/A, File No. 333-112488 dated February 23, 2004, and incorporated herein by reference).
10.1	BancFirst Corporation Employee Stock Ownership and Trust Agreement adopted December 21, 2006 effective January 1, 2007 (filed as Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the Quarter ended March 31, 2008 and incorporated herein by reference).
10.2*	Third Amended and Restated BancFirst Corporation Non-Employee Directors Stock Option Plan.
10.3*	Fourth Amended and Restated BancFirst Corporation Directors Deferred Stock Compensation Plan.

Exhibit Number	Exhibit
10.4	Amended and Restated BancFirst Corporation Thrift Plan adopted March 25, 2010 effective January 1, 2010 (filed as Exhibit 10.6 to the Company s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2010 and incorporated herein by reference).
10.5	Amendment (Code Section 415 Compliance) to the BancFirst Corporation Employee Stock Ownership Plan and Trust Agreement, adopted July 23, 2009. (filed as Exhibit 10.7 to the Company s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2010 and incorporated herein by reference).
10.6	Amendment (Pension Protection Act, Heart Act and the Worker, Retiree, and Employer Recovery Act) to the BancFirst Corporation Employee Stock Ownership Plan and Trust Agreement, adopted December 17, 2009 (filed as Exhibit 10.8 to the Company s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2010 and incorporated herein by reference).
10.7	Amendment to the Amended and Restated BancFirst Corporation Thrift Plan adopted December 16, 2010 effective January 1, 2011 (filed as Exhibit 10.9 to the Company s Annual Report on Form 10-K for the Year Ended December 31, 2010 and incorporated herein by reference).
10.8	Amendment to the Amended and Restated BancFirst Corporation Thrift Plan adopted October 27, 2011 effective October 1, 2011 (filed as Exhibit 10.9 to the Company s Annual Report on Form 10-K for the Year Ended December 31, 2011 and incorporated herein by reference).
10.9	Amendment to the Amended and Restated BancFirst Corporation Employee Stock Ownership Plan adopted October 27, 2011 effective October 1, 2011 (filed as Exhibit 10.10 to the Company s Annual Report on Form 10-K for the Year Ended December 31, 2011 and incorporated herein by reference).
10.10*	Twelfth Amended and Restated BancFirst Corporation Stock Option Plan.
31.1*	Chief Executive Officer s Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31.2*	Chief Financial Officer s Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1*	CEO s Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	CFO s Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

SIGNATURES

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

BANCFIRST CORPORATION
(Registrant)

Date: August 8, 2014

/s/ David E. Rainbolt
David E. Rainbolt
President
Chief Executive Officer
(Principal Executive Officer)

Date: August 8, 2014

/s/ Randy Foraker
Randy Foraker
Executive Vice President
Interim Chief Financial Officer
and Chief Risk Officer
(Principal Financial and Accounting Officer)