

BANCFIRST CORP /OK/
Form 10-Q
May 08, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 0-14384

BancFirst Corporation

(Exact name of registrant as specified in charter)

Oklahoma 73-1221379
(State or other Jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

101 N. Broadway, Oklahoma City, Oklahoma 73102-8405
(Address of principal executive offices) (Zip Code)
(405) 270-1086

(Registrant's telephone number, including area code)

N/A

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(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 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 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

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

As of April 30, 2015 there were 15,531,748 shares of the registrant's Common Stock outstanding.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

BANCFIRST CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	March 31, 2015 (unaudited)	December 31, 2014 (see Note 1)	March 31, 2014 (unaudited)
ASSETS			
Cash and due from banks	\$187,416	\$203,545	\$225,547
Interest-bearing deposits with banks	1,699,265	1,710,350	1,737,559
Federal funds sold	1,000	—	3,000
Securities (fair value: \$550,194, \$524,861, and \$587,100, respectively)	550,125	524,783	587,018
Loans:			
Total loans (net of unearned interest)	3,857,742	3,860,831	3,542,270
Allowance for loan losses	(41,557)	(40,889)	(39,924)
Loans, net	3,816,185	3,819,942	3,502,346
Premises and equipment, net	122,786	121,341	121,354
Other real estate owned	6,246	7,859	7,328
Intangible assets, net	10,158	10,635	11,549
Goodwill	44,962	44,962	45,118
Accrued interest receivable and other assets	131,977	131,555	134,222
Total assets	\$6,570,120	\$6,574,972	\$6,375,041
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Noninterest-bearing	\$2,319,445	\$2,411,066	\$2,133,583
Interest-bearing	3,564,356	3,493,638	3,604,267
Total deposits	5,883,801	5,904,704	5,737,850
Short-term borrowings	2,043	3,982	8,603
Long-term borrowings	—	—	2,000
Accrued interest payable and other liabilities	35,793	30,168	31,672
Junior subordinated debentures	26,804	26,804	26,804
Total liabilities	5,948,441	5,965,658	5,806,929
Commitments and contingent liabilities			
Stockholders' equity:			
Senior preferred stock, \$1.00 par; 10,000,000 shares authorized; none issued	—	—	—
	—	—	—

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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: 15,512,545, 15,504,513 and 15,363,728, respectively	15,512	15,504	15,364
Capital surplus	97,477	96,841	89,951
Retained earnings	503,758	492,776	458,857
Accumulated other comprehensive income, net of income tax of \$3,110, \$2,644 and \$2,486, respectively	4,932	4,193	3,940
Total stockholders' equity	621,679	609,314	568,112
Total liabilities and stockholders' equity	\$6,570,120	\$6,574,972	\$6,375,041

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 March 31,	
	2015	2014
INTEREST INCOME		
Loans, including fees	\$45,949	\$42,649
Securities:		
Taxable	1,399	1,305
Tax-exempt	246	280
Federal funds sold	—	5
Interest-bearing deposits with banks	1,062	1,090
Total interest income	48,656	45,329
INTEREST EXPENSE		
Deposits	2,538	2,789
Short-term borrowings	1	2
Long-term borrowings	—	18
Junior subordinated debentures	491	491
Total interest expense	3,030	3,300
Net interest income	45,626	42,029
Provision for loan losses	1,334	1,218
Net interest income after provision for loan losses	44,292	40,811
NONINTEREST INCOME		
Trust revenue	2,342	2,151
Service charges on deposits	13,352	13,458
Securities transactions	1,729	450
Income from sales of loans	440	351
Insurance commissions	4,068	3,966
Cash management	1,819	1,585
Gain on sale of other assets	40	5
Other	1,506	1,596
Total noninterest income	25,296	23,562
NONINTEREST EXPENSE		
Salaries and employee benefits	27,513	25,938
Occupancy and fixed assets expense, net	2,835	2,789
Depreciation	2,464	2,349
Amortization of intangible assets	444	408
Data processing services	1,117	1,170
Net expense from other real estate owned	314	550
Marketing and business promotion	1,679	1,716
Deposit insurance	826	773
Other	7,731	8,143

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Total noninterest expense	44,923	43,836
Income before taxes	24,665	20,537
Income tax expense	(8,406)	(5,880)
Net income	\$16,259	\$14,657
NET INCOME PER COMMON SHARE		
Basic	\$1.05	\$0.96
Diluted	\$1.03	\$0.94
OTHER COMPREHENSIVE INCOME		
Unrealized gains (losses) on securities, net of tax of \$(700) and \$(403), respectively	1,111	65
Reclassification adjustment for gains included in net income, net of tax of \$234 and \$20, respectively	(372)	(32)
Other comprehensive gain (loss), net of tax of \$(466) and \$(383), respectively	739	33
Comprehensive income	\$16,998	\$14,690

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 March 31,	
	2015	2014
COMMON STOCK		
Issued at beginning of period	\$ 15,504	\$ 15,334
Shares issued	8	30
Issued at end of period	\$ 15,512	\$ 15,364
CAPITAL SURPLUS		
Balance at beginning of period	\$96,841	\$88,803
Common stock issued	236	878
Tax effect of stock options	(64)	(77)
Stock-based compensation arrangements	464	347
Balance at end of period	\$97,477	\$89,951
RETAINED EARNINGS		
Balance at beginning of period	\$492,776	\$448,953
Net income	16,259	14,657
Dividends on common stock	(5,277)	(4,753)
Balance at end of period	\$503,758	\$458,857
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Unrealized gains on securities:		
Balance at beginning of period	\$4,193	\$3,907
Net change	739	33
Balance at end of period	\$4,932	\$3,940
Total stockholders' equity	\$621,679	\$568,112

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

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$16,259	\$14,657
Adjustments to reconcile to net cash provided by operating activities:		
Provision for loan losses	1,334	1,218
Depreciation and amortization	2,908	2,757
Net amortization of securities premiums and discounts	148	276
Realized securities gains	(1,729)	(450)
Gain on sales of loans	(440)	(351)
Cash receipts from the sale of loans originated for sale	36,163	30,779
Cash disbursements for loans originated for sale	(37,393)	(29,189)
Deferred income tax benefit	(586)	(1,934)
Loss/(gain) on other assets	207	(62)
(Increase)/decrease in interest receivable	(356)	133
Decrease in interest payable	(20)	(200)
Amortization of stock-based compensation arrangements	464	347
Other, net	5,855	2,205
Net cash provided by operating activities	\$22,814	\$20,186
INVESTING ACTIVITIES		
Net (increase)/decrease in federal funds sold	(1,000)	1,619
Net cash and due from banks received from acquisitions	—	174,645
Purchases of available for sale securities	(30,740)	(99,914)
Proceeds from maturities, calls and paydowns of held for investment securities	311	718
Proceeds from maturities, calls and paydowns of available for sale securities	6,144	44,920
Proceeds from sales of available for sale securities	1,729	498
Net change in loans	3,613	(46,429)
Purchases of premises, equipment and computer software	(4,107)	(3,154)
Proceeds from the sale of other assets	1,955	812
Net cash (used in)/provided by investing activities	(22,095)	73,715
FINANCING ACTIVITIES		
Net (decrease)/increase in demand, transaction and savings deposits	(6,257)	80,601
Net decrease in time deposits	(14,646)	(64,084)
Net (decrease)/increase in short-term borrowings	(1,939)	4,013
Paydown of long-term borrowings	—	(4,938)
Issuance of common stock, net	180	831
Cash dividends paid	(5,271)	(4,753)
Net cash (used in)/provided by financing activities	(27,933)	11,670
Net (decrease)/increase in cash, due from banks and interest-bearing deposits	(27,214)	105,571
Cash, due from banks and interest-bearing deposits at the beginning of the period	1,913,895	1,857,535

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Cash, due from banks and interest-bearing deposits at the end of the period	\$1,886,681	\$1,963,106
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$3,050	\$2,991
Cash paid during the period for income taxes	\$600	\$850
Noncash investing and financing activities:		
Unpaid common stock dividends declared	\$5,271	\$4,744

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, 2014.

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. and BancFirst Agency, Inc. 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, 2014, should be referred to in connection with these unaudited interim consolidated financial statements. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

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, 2014, the date of the most recent annual report.

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.

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.

Recent Accounting Pronouncements

In February 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-02, “Consolidation (Topic 810) – Amendments to the Consolidation Analysis.” ASU 2015-02 implements changes to both the variable interest consolidation model and the voting interest consolidation model. ASU 2015-02 (i) eliminates certain criteria that must be met when determining when fees paid to a decision maker or service provider do not represent a variable interest, (ii) amends the criteria for determining whether a limited partnership is a variable interest entity and (iii) eliminates the presumption that a general partner controls a limited partnership in the voting model. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2015. Adoption of ASU 2015-02 is not expected to have a significant effect on the Company’s financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements – Going Concern (Topic 205-40).” ASU 2014-15 provides guidance on management’s responsibility in evaluating whether there is substantial doubt about the Company’s ability to continue as a going concern and related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about the Company’s ability to continue as a going concern within one year from the date the financial statements are issued. The amendments are effective for annual periods, and

interim reporting periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. Adoption of ASU 2014-15 is not expected to have a significant effect on the Company's financial statements.

In January 2014, the 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 were effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. Adoption of ASU 2014-04 did not 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 were effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The amendments were required to be applied retrospectively to all periods presented. Early adoption was permitted and adoption of the standard was optional. Adoption of ASU 2014-01 did not have a material impact on the Company's financial statements.

(2) RECENT DEVELOPMENTS, INCLUDING MERGERS AND ACQUISITIONS

In January 2015, Council Oak Investment Corporation, a wholly-owned subsidiary of BancFirst, recognized a pretax gain of approximately \$1.7 million on one of its investments.

(3) SECURITIES

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

	March 31, 2015
	(Dollars in thousands)
Held for investment, at cost (fair value: \$8,350)	\$ 8,281
Available for sale, at fair value	541,844
Total	\$ 550,125

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

	March 31, 2015		
	Amortized	Gross	Estimated
		Gross	Estimated

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	Cost	Unrealized Gains	Unrealized Losses	Fair Value
(Dollars in thousands)				
Mortgage backed securities (1)	\$439	\$ 32	\$ —	\$ 471
States and political subdivisions	7,842	37	—	7,879
Total	\$8,281	\$ 69	\$ —	\$ 8,350

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

	March 31, 2015			
	Gross	Gross	Estimated	
	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
(Dollars in thousands)				
U.S. treasuries	\$279,498	\$ 1,717	\$ —	\$281,215
U.S. federal agencies	168,514	1,010	(62)	169,462
Mortgage backed securities (1)	25,272	595	(567)	25,300
States and political subdivisions	49,631	1,868	(19)	51,480
Other securities (2)	10,887	3,633	(133)	14,387
Total	\$533,802	\$ 8,823	\$ (781)	\$541,844

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

(2) Primarily consists of equity securities.

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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.

	March 31, 2015 Estimated	
	Amortized Fair	
	Cost	Value
	(Dollars in thousands)	
Held for Investment		
Contractual maturity of debt securities:		
Within one year	\$1,373	\$1,380
After one year but within five years	6,399	6,429
After five years but within ten years	368	383
After ten years	141	158
Total	\$8,281	\$8,350
Available for Sale		
Contractual maturity of debt securities:		
Within one year	\$91,839	\$91,928
After one year but within five years	333,138	336,018
After five years but within ten years	16,864	17,653
After ten years	84,514	85,341
Total debt securities	526,355	530,940
Equity securities	7,447	10,904
Total	\$533,802	\$541,844

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:

	March 31, 2015 (Dollars in thousands)
Book value of pledged securities	\$ 482,193

(4) LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a schedule of loans outstanding by category:

March 31, 2015		December 31, 2014		March 31, 2014	
Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)					

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Commercial and financial:									
Commercial and industrial	\$747,470	19.38	%	\$745,106	19.30	%	\$676,084	19.09	%
Oil & gas production and equipment	102,342	2.65		104,940	2.72		99,382	2.80	
Agriculture	122,186	3.17		132,830	3.44		109,570	3.09	
State and political subdivisions:									
Taxable	18,055	0.47		20,431	0.53		9,824	0.28	
Tax-exempt	25,374	0.66		20,952	0.54		11,219	0.32	
Real estate:									
Construction	361,976	9.38		356,621	9.24		299,238	8.45	
Farmland	145,494	3.77		149,507	3.87		141,059	3.98	
One to four family residences	783,810	20.32		775,795	20.09		723,358	20.42	
Multifamily residential properties	66,851	1.73		66,766	1.73		60,785	1.72	
Commercial	1,192,581	30.91		1,191,477	30.86		1,134,384	32.02	
Consumer	259,644	6.73		267,179	6.92		251,651	7.10	
Other (not classified above)	31,959	0.83		29,227	0.76		25,716	0.73	
Total loans	\$3,857,742	100.00	%	\$3,860,831	100.00	%	\$3,542,270	100.00	%
Loans held for sale (included above)	\$11,103			\$9,433			\$5,231		

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The Company's loans are mostly to customers within Oklahoma and over 65% 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 Note (1) to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Nonperforming and Restructured Assets

The following is a summary of nonperforming and restructured assets:

	March 31, 2015	December 31, 2014	March 31, 2014
	(Dollars in thousands)		
Past due 90 days or more and still accruing	\$1,498	\$ 1,135	\$910
Nonaccrual	16,562	16,410	17,753
Restructured	16,131	16,515	17,468
Total nonperforming and restructured loans	34,191	34,060	36,131
Other real estate owned and repossessed assets	6,418	8,079	7,590
Total nonperforming and restructured assets	\$40,609	\$ 42,139	\$43,721
Nonperforming and restructured loans to total loans	0.89 %	0.88 %	1.02 %
Nonperforming and restructured assets to total assets	0.62 %	0.64 %	0.69 %

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 \$310,000 for the three months ended March 31, 2015 and approximately \$227,000 for the three months ended March 31, 2014.

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.

March 31, 2015	March 31, 2014
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(Dollars in
thousands)

Real estate:		
Non-residential real estate owner occupied	\$408	\$448
Non-residential real estate other	5,113	5,779
Residential real estate permanent mortgage	641	689
Residential real estate all other	1,730	958
Commercial and financial:		
Non-consumer non-real estate	2,215	1,287
Consumer non-real estate	177	165
Other loans	1,752	1,198
Acquired loans	4,526	7,229
Total	\$16,562	\$17,753

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

Age Analysis of Past Due Loans							Accruing
	30-59	60-89	90	Total			Loans 90
	Days	Days	Days	Past	Current	Total	Days or
	Past	Past	and	Due	Loans	Loans	More
	Due	Due	Greater	Loans	Loans	Loans	Past Due
	(Dollars in thousands)						
As of March 31, 2015							
Real estate:							
Non-residential real estate owner occupied	\$417	\$—	\$258	\$675	\$486,183	\$486,858	\$ 60
Non-residential real estate other	4,597	—	825	5,422	951,760	957,182	—
Residential real estate permanent mortgage	1,922	403	337	2,662	310,115	312,777	49
Residential real estate all other	1,732	477	1,320	3,529	636,092	639,621	464
Commercial and financial:							
Non-consumer non-real estate	3,413	239	1,127	4,779	958,831	963,610	250
Consumer non-real estate	1,678	668	272	2,618	239,584	242,202	201
Other loans	1,373	452	1,075	2,900	162,228	165,128	352
Acquired loans	2,025	194	1,400	3,619	86,745	90,364	122
Total	\$17,157	\$2,433	\$6,614	\$26,204	\$3,831,538	\$3,857,742	\$ 1,498
As of March 31, 2014							
Real estate:							
Non-residential real estate owner occupied	\$518	\$—	\$298	\$816	\$457,978	\$458,794	\$ 96
Non-residential real estate other	4,978	—	935	5,913	873,592	879,505	—
Residential real estate permanent mortgage	1,391	476	458	2,325	270,879	273,204	76
Residential real estate all other	1,101	173	543	1,817	565,930	567,747	86
Commercial and financial:							
Non-consumer non-real estate	2,599	150	929	3,678	824,361	828,039	18
Consumer non-real estate	1,561	526	260	2,347	223,615	225,962	218
Other loans	1,569	—	1,071	2,640	145,571	148,211	—
Acquired loans	2,916	712	3,874	7,502	153,306	160,808	416
Total	\$16,633	\$2,037	\$8,368	\$27,038	\$3,515,232	\$3,542,270	\$ 910
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.

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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 Recorded			Average
	Unpaid	Investment	Related	Recorded
	Principal	with	Allowance	Investment
	Balance	Allowance	Allowance	Investment
	(Dollars in thousands)			
As of March 31, 2015				
Real estate:				
Non-residential real estate owner occupied	\$574	\$ 499	\$ 18	\$ 516
Non-residential real estate other	22,834	20,784	1,338	21,133
Residential real estate permanent mortgage	1,034	803	60	916
Residential real estate all other	2,503	2,279	313	2,393
Commercial and financial:				
Non-consumer non-real estate	2,797	2,465	614	2,129
Consumer non-real estate	566	553	107	582
Other loans	2,204	2,105	49	2,322
Acquired loans	8,488	5,475	—	5,763
Total	\$41,000	\$ 34,963	\$ 2,499	\$ 35,754
As of March 31, 2014				
Real estate:				
Non-residential real estate owner occupied	\$688	\$ 601	\$ 29	\$ 642
Non-residential real estate other	24,355	22,680	1,734	22,915
Residential real estate permanent mortgage	1,068	836	88	918
Residential real estate all other	1,318	1,139	218	1,335
Commercial and financial:				
Non-consumer non-real estate	1,824	1,491	427	1,449
Consumer non-real estate	548	527	134	572
Other loans	1,215	1,198	207	1,278
Acquired loans	20,179	13,361	189	9,744
Total	\$51,195	\$ 41,833	\$ 3,026	\$ 38,853

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, 2014.

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

	Internal Loan Grading					Total
	1	2	3	4	5	
(Dollars in thousands)						
As of March 31, 2015						
Real estate:						
Non-residential real estate owner occupied	\$403,255	\$77,545	\$5,590	\$468	\$—	\$486,858
Non-residential real estate other	794,097	127,716	30,255	5,114	—	957,182
Residential real estate permanent mortgage	276,186	29,103	6,743	745	—	312,777
Residential real estate all other	526,322	100,008	11,216	2,075	—	639,621
Commercial and financial:						
Non-consumer non-real estate	811,529	125,609	24,107	2,365	—	963,610
Consumer non-real estate	227,722	12,321	1,716	443	—	242,202
Other loans	158,895	5,116	779	338	—	165,128
Acquired loans	42,540	33,670	9,358	4,503	293	90,364
Total	\$3,240,546	\$511,088	\$89,764	\$16,051	\$293	\$3,857,742
As of March 31, 2014						
Real estate:						
Non-residential real estate owner occupied	\$381,290	\$70,949	\$6,052	\$503	\$—	\$458,794
Non-residential real estate other	724,181	129,390	20,155	5,779	—	879,505
Residential real estate permanent mortgage	240,653	25,074	6,610	867	—	273,204
Residential real estate all other	474,152	86,033	6,495	1,067	—	567,747
Commercial and financial:						
Non-consumer non-real estate	673,757	147,625	5,350	1,307	—	828,039
Consumer non-real estate	212,492	11,388	1,655	427	—	225,962
Other loans	144,870	2,375	736	230	—	148,211
Acquired loans	92,581	48,073	12,091	7,917	146	160,808
Total	\$2,943,976	\$520,907	\$59,144	\$18,097	\$146	\$3,542,270

Allowance for Loan Losses Methodology

The allowance for loan losses (“ALL”) methodology is disclosed in Note (5) to the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

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
Balance				at
at				Provisions
beginning				charged to
of	Charge-	Net		end of
period	offs	Recoveries	charge-offs	period

(Dollars in thousands)

Three Months Ended March 31, 2015

Real estate:

Non-residential real estate owner occupied	\$4,406	\$ (1)	\$ 1	\$ —	\$ 55	\$4,461
Non-residential real estate other	9,616	—	—	—	282	9,898
Residential real estate permanent mortgage	2,948	(40)	9	(31)	67	2,984
Residential real estate all other	6,269	(68)	5	(63)	372	6,578
Commercial and financial:						
Non-consumer non-real estate	12,771	(153)	31	(122)	419	13,068
Consumer non-real estate	2,404	(127)	15	(112)	35	2,327
Other loans	2,359	(213)	9	(204)	86	2,241
Acquired loans	116	(160)	26	(134)	18	—
Total	\$40,889	\$ (762)	\$ 96	\$ (666)	\$ 1,334	\$41,557

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ALL				
Balance			Provisions	Balance
at			charged to	at
beginning	of Charge-	Net	operations	end of
periods	Recoveries	charge-offs		period
(Dollars in thousands)				
Three Months Ended March 31, 2014				