BANCFIRST CORP /OK/
Form 10-Q
November 08, 2012

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 September 30, 2012

OR

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

For the transition period from to

Commission File Number 0-14384

BancFirst Corporation

(Exact name of registrant as specified in charter)

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

(405) 270-1086

(Registrant s telephone number, including area code)

N/A

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

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

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

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

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

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

As of October 31, 2012 there were 15,224,808 shares of the registrant s Common Stock outstanding.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

BANCFIRST CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	September 30, 2012 (unaudited)	December 31, 2011 (see Note 1)	September 30, 2011 (unaudited)
ASSETS			
Cash and due from banks	$ 139,004	$ 163,698	$ 146,904
Interest-bearing deposits with banks	1,773,610	1,544,035	1,463,388
Federal funds sold		400	
Securities (market value: $540,786, $615,458, and $607,626, respectively)	540,475	614,977	607,046
Loans:			
Total loans (net of unearned interest)	3,116,096	3,013,498	2,984,114
Allowance for loan losses	(37,258)	(37,656)	(37,456)
Loans, net	3,078,838	2,975,842	2,946,658
Premises and equipment, net	113,812	111,355	110,001
Other real estate owned	9,559	16,109	16,222
Intangible assets, net	12,630	14,219	14,883
Goodwill	44,545	44,545	44,593
Accrued interest receivable	16,666	18,662	17,657
Other assets	107,612	104,983	104,954
Total assets	$ 5,836,751	$ 5,608,825	$ 5,472,306
LIABILITIES AND STOCKHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	$ 1,927,387	$ 1,704,996	$ 1,624,314
Interest-bearing	3,326,118	3,332,739	3,263,018
Total deposits	5,253,505	5,037,735	4,887,332
Short-term borrowings	5,665	8,274	12,279
Accrued interest payable	2,151	2,710	2,874
Long-term borrowings	11,255	18,476	28,049
Other liabilities	26,984	22,506	31,293
Junior subordinated debentures	26,804	36,083	36,083
Total liabilities	5,326,364	5,125,784	4,997,910
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: 15,200,468, 15,117,430 and 15,125,541, respectively	15,200	15,118	15,126
Capital surplus	80,750	77,462	74,966
Retained earnings	407,732	381,017	374,140
Accumulated other comprehensive income, net of income tax of $3,609, $5,084 and $5,484, respectively	6,705	9,444	10,164

Total stockholders equity	510,387	483,041	474,396
Total liabilities and stockholders equity	$ 5,836,751	$ 5,608,825	$ 5,472,306

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 September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
INTEREST INCOME				
Loans, including fees	$ 42,026	$ 42,074	$ 125,843	$ 121,587
Securities:				
Taxable	1,681	2,754	6,175	9,391
Tax-exempt	366	502	1,201	1,734
Federal funds sold			1	41
Interest-bearing deposits with banks	1,071	930	3,105	2,591
Total interest income	45,144	46,260	136,325	135,344
INTEREST EXPENSE				
Deposits	3,729	5,159	11,861	17,390
Short-term borrowings	7	26	23	33
Long-term borrowings	84	332	280	833
Junior subordinated debentures	492	525	1,643	1,575
Total interest expense	4,312	6,042	13,807	19,831
Net interest income	40,832	40,218	122,518	115,513
Provision for loan losses	233	885	654	3,686
Net interest income after provision for loan losses	40,599	39,333	121,864	111,827
NONINTEREST INCOME				
Trust revenue	1,927	1,779	5,457	4,997
Service charges on deposits	11,896	11,386	33,534	31,587
Securities transactions	385	50	4,643	1,374
Income from sales of loans	737	529	2,075	1,401
Insurance commissions	3,661	2,910	9,457	7,803
Cash management	1,971	1,848	5,951	5,540
Gain on sale of other assets	26	3	369	7
Other	1,513	1,612	4,431	4,817
Total noninterest income	22,116	20,117	65,917	57,526
NONINTEREST EXPENSE				
Salaries and employee benefits	24,641	23,845	74,271	68,215
Occupancy and fixed assets expense, net	2,877	2,667	7,800	7,529
Depreciation	2,253	2,117	6,610	5,910
Amortization of intangible assets	457	458	1,371	1,211
Data processing services	1,208	1,302	3,649	3,720
Net expense from other real estate owned	200	965	1,369	834
Marketing and business promotion	1,998	1,550	5,332	4,741
Deposit insurance	745	786	2,188	2,976
Other	8,086	7,569	24,475	22,130

Total noninterest expense	42,465	41,259	127,065	117,266
Income before taxes	20,250	18,191	60,716	52,087
Income tax expense	6,390	5,638	21,122	18,064
Net income	13,860	12,553	39,594	34,023
NET INCOME PER COMMON SHARE				
Basic	$ 0.91	$ 0.82	$ 2.61	$ 2.22
Diluted	$ 0.90	$ 0.81	$ 2.57	$ 2.18
OTHER COMPREHENSIVE INCOME				
Unrealized gains (losses) on securities, net of tax of $44, $(273), $654 and $(1,232), respectively	$ (82)	$ 430	$ (1,214)	$ 2,214
Reclassification adjustment for gains (losses) included in net income, net of tax of $93, $6, $821 and $299, respectively	(172)	(11)	(1,525)	(555)
Other comprehensive income (loss), net of tax of $137, $(267), $1,475 and $(933), respectively	(254)	419	(2,739)	1,659
Comprehensive income	$ 13,606	$ 12,972	$ 36,855	$ 35,682

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

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
COMMON STOCK				
Issued at beginning of period	$ 15,154	$ 15,273	$ 15,118	$ 15,369
Shares issued	46	16	89	37
Shares acquired and canceled		(163)	(7)	(280)
Issued at end of period	$ 15,200	$ 15,126	$ 15,200	$ 15,126
CAPITAL SURPLUS				
Balance at beginning of period	$ 79,181	$ 74,229	$ 77,462	$ 73,040
Common stock issued	748	248	1,470	722
Tax effect of stock options	430	118	629	187
Stock-based compensation arrangements	391	371	1,189	1,017
Balance at end of period	$ 80,750	$ 74,966	$ 80,750	$ 74,966
RETAINED EARNINGS				
Balance at beginning of period	$ 398,267	$ 371,150	$ 381,017	$ 361,680
Net income	13,860	12,553	39,594	34,023
Dividends on common stock	(4,395)	(4,097)	(12,630)	(11,791)
Common stock acquired and canceled		(5,466)	(249)	(9,772)
Balance at end of period	$ 407,732	$ 374,140	$ 407,732	$ 374,140
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Unrealized gains (losses) on securities:				
Balance at beginning of period	$ 6,959	$ 9,745	$ 9,444	$ 8,505
Net change	(254)	419	(2,739)	1,659
Balance at end of period	$ 6,705	$ 10,164	$ 6,705	$ 10,164
Total stockholder s equity	$ 510,387	$ 474,396	$ 510,387	$ 474,396

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

BANCFIRST CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 39,594	$ 34,023
Adjustments to reconcile to net cash provided by operating activities:		
Provision for loan losses	654	3,686
Depreciation and amortization	7,981	7,121
Net amortization of securities premiums and discounts	1,093	3,339
Realized securities gains	(4,643)	(1,374)
Gain on sales of loans	(2,075)	(1,401)
Cash receipts from the sale of loans originated for sale	169,065	117,751
Cash disbursements for loans originated for sale	(170,446)	(117,667)
Deferred income tax provision (benefit)	426	(3,476)
Gains on other assets	(323)	(1,066)
Decrease in interest receivable	1,996	4,879
Increase in interest payable	(559)	(431)
Amortization of stock-based compensation arrangements	1,189	1,017
Other, net	3,936	6,205
Net cash provided by operating activities	47,888	52,606
INVESTING ACTIVITIES		
Net cash and due from banks provided by acquisitions		32,186
Net decrease in Federal funds sold	400	41,207
Purchases of securities:		
Held for investment	(2,525)	(6,400)
Available for sale	(58,240)	(166,140)
Maturities of securities:		
Held for investment	5,845	5,731
Available for sale	116,831	264,978
Proceeds from sales and calls of securities:		
Held for investment	2,417	2
Available for sale	9,469	79,770
Purchases of loans	(22,215)	(28,404)
Proceeds from sales of loans	32,569	9,298
Net other increase in loans	(112,844)	(44,259)
Purchases of premises, equipment and computer software	(9,290)	(12,439)
Proceeds from the sale of other assets	8,245	14,125
Net cash (used in) provided by investing activities	(29,338)	189,655
FINANCING ACTIVITIES		
Net increase in demand, transaction and savings deposits	274,556	250,170
Net decrease in time deposits	(58,786)	(43,780)
Net decrease in short-term borrowings	(2,609)	(5,857)
Paydown of long-term borrowings	(7,221)	(15,968)
Redemption of junior subordinated debentures	(9,279)	
Issuance of common stock	2,188	946

Common stock acquired	(256)	(10,052)
Cash dividends paid	(12,262)	(11,507)
Net cash provided by financing activities	186,331	163,952
Net increase in cash, due from banks and interest-bearing deposits	204,881	406,213
Cash, due from banks and interest-bearing deposits at the beginning of the period	1,707,733	1,204,079
Cash, due from banks and interest-bearing deposits at the end of the period	$ 1,912,614	$ 1,610,292
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 14,366	$ 20,192
Cash paid during the period for income taxes	$ 21,475	$ 21,802

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

BANCFIRST CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The accounting and reporting policies of BancFirst Corporation and its subsidiaries (the Company) conform to generally accepted accounting principles and general practice within the banking industry. A summary of significant accounting policies can be found in Footnote (1) to the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Basis of Presentation

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

The accompanying 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, 2011, 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, 2011, 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.

Recent Accounting Pronouncements

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

In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU 2011-12 defers changes in ASU 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to re-deliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other

comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12. ASU 2011-12 was effective for annual and interim periods beginning after December 15, 2011. Adoption of ASU 2011-12 did not have a significant effect on the Company s financial statements.

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

In September 2011, the FASB issued ASU No. 2011-08, Intangibles (Topic 350) Goodwill and Other. ASU 2011-08 is an update to simplify how entities test for goodwill impairment. The amendments in the update permit the Company to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If these factors determined that the fair value exceeds the carrying amount then the Company is not required to calculate the fair value of the reporting unit. The Company opted to continue to perform quantitative tests for goodwill impairment and not to perform qualitative tests for goodwill impairment under ASU 2011-08 as of September 30, 2011. Adoption of ASU 2011-08 did not have a significant effect on the Company s financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income. ASU 2011-05 is an update to improve the comparability, consistency, and transparency of financial reporting, to increase the prominence of items reported in other comprehensive income, and to facilitate convergence of GAAP and IFRS. The Company adopted ASU 2011-05 as of September 30, 2011, and the standard was applied retrospectively. The adoption of ASU 2011-05 did not have a significant effect on the Company s financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). ASU 2011-04 is an update to explain how to measure fair value. This amendment does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. This amendment was put forth in order to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements consistent with IFRS. ASU 2011-04 was effective for the Company on January 1, 2012, and was applied prospectively. Adoption of ASU 2011-04 did not have a significant effect on the Company s financial statements.

In April 2011, the FASB issued ASU No. 2011-02, Receivables (Topic 310) A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring. ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU 2011-02, that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 was effective for the Company on July 1, 2011, and was applied retrospectively to restructurings occurring on or after January 1, 2011. Adoption of ASU 2011-02 did not have a significant effect on the Company s financial statements.

(2) RECENT DEVELOPMENTS, INCLUDING MERGERS AND ACQUISITIONS

On January 19, 2012, Council Oak Investment Corporation, a wholly-owned subsidiary of BancFirst, completed the sale of one of its investments that resulted in a pretax gain of approximately $4.5 million. After related expenses and income taxes, the increase in net income approximated $2.6 million or $0.17 per common share on a fully diluted basis. The gain was included in first quarter 2012 earnings.

On July 12, 2011, the Company completed the acquisition of FBC Financial Corporation and its subsidiary bank, 1st Bank Oklahoma with banking locations in Claremore, Verdigris, and Inola, Oklahoma. The Company paid a premium of $1.5 million above the equity capital of FBC Financial Corporation. At acquisition, 1st Bank

Oklahoma had approximately $217 million in total assets, $116 million in loans, $178 million in deposits and $18 million in equity capital. 1st Bank Oklahoma operated as a subsidiary of BancFirst Corporation until it was merged into BancFirst on February 17, 2012. The acquisition did not have a material effect on the Company s consolidated financial statements.

The Federal Reserve enacted a final rule on June 29, 2011 establishing the debit card interchange rate at $0.21 per transaction and five basis points multiplied by the value of the transaction that was effective on October 1, 2011 for banks exceeding $10 billion in assets. Although the rule does not apply directly to the Company, the possible competitive response may have an impact on the Company s pricing of these services.

(3) SECURITIES

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

	September 30, 2012 (Dollars in thousands)
Held for investment, at cost (market value: $17,080)	$ 16,769
Available for sale, at market value	523,706
Total	$ 540,475

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

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(Dollars in thousands)			
U.S. treasury and other Federal agencies	$ 844	$ 65	$	$ 909
States and political subdivisions	15,925	254	(8)	16,171
Total	$ 16,769	$ 319	$ (8)	$ 17,080

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

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(Dollars in thousands)			
U.S. Federal agencies (1)	$ 429,163	$ 4,126	$ (158)	$ 433,131
Mortgage backed securities	21,453	939	(2)	22,390
States and political subdivisions	54,631	3,219	(21)	57,829
Other securities (2)	8,145	2,233	(22)	10,356
Total	$ 513,392	$ 10,517	$ (203)	$ 523,706

(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.

	September 30, 2012	
	Amortized Cost	Estimated Market Value
	(Dollars in thousands)	
Held for Investment		
Contractual maturity of debt securities:		
Within one year	$ 4,000	$ 4,069
After one year but within five years	9,355	9,484
After five years but within ten years	2,825	2,878
After ten years	589	649
Total	$ 16,769	$ 17,080
Available for Sale		
Contractual maturity of debt securities:		
Within one year	$ 117,905	$ 118,531
After one year but within five years	252,639	255,416
After five years but within ten years	41,284	43,218
After ten years	93,419	96,185
Total debt securities	505,247	513,350
Equity securities	8,145	10,356
Total	$ 513,392	$ 523,706

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:

	September 30, 2012
	(Dollars in thousands)
Book value of pledged securities	$ 453,005

(4) LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a schedule of loans outstanding by category:

	September 30, 2012		December 31, 2011		September 30, 2011	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in thousands)			
Commercial and industrial	$ 541,130	17.37%	$ 547,942	18.19%	$ 542,189	18.17%
Oil & gas production & equipment	131,642	4.22	115,786	3.84	109,272	3.66
Agriculture	83,146	2.67	86,297	2.86	73,021	2.45
State and political subdivisions:						
Taxable	7,786	0.25	6,939	0.23	7,079	0.24
Tax-exempt	13,749	0.44	17,070	0.57	12,192	0.41
Real estate:						
Construction	211,505	6.79	207,953	6.90	258,182	8.65
Farmland	114,043	3.66	103,923	3.45	97,041	3.25
One to four family residences	674,457	21.64	655,134	21.74	655,007	21.95
Multifamily residential properties	50,659	1.63	37,734	1.25	37,173	1.24
Commercial	1,026,097	32.93	960,074	31.86	908,207	30.43
Consumer	241,864	7.76	252,331	8.37	260,718	8.74
Other (not classified above)	20,018	0.64	22,315	0.74	24,033	0.81
Total loans	$ 3,116,096	100.00%	$ 3,013,498	100.00%	$ 2,984,114	100.00%
Loans held for sale (included above).	$ 15,479		$ 12,126		$ 13,066	

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 (5) to the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Nonperforming and Restructured Assets

Nonaccrual loans, accruing loans past due 90 days or more, and restructured loans are shown in the table below. Had nonaccrual loans performed in accordance with their original contract terms, the Company would have recognized additional interest income of approximately $953,000 for the nine months ended September 30, 2012 and approximately $860,000 for the nine months ended September 30, 2011.

At September 30, 2012, troubled debt restructurings were primarily due to the principal deferral restructuring from one customer. This loan was evaluated by management and determined to be well collateralized. Additionally, none of the concessions granted involved a principal reduction or a change from the current market rate of interest. Collateral value will be monitored periodically to evaluate possible impairment. The Company charges interest on principal balances outstanding during deferral periods. As a result, the current and future financial effects of the recorded balance of loans considered to be restructured were not considered to be material.

The following is a summary of nonperforming and restructured assets:

	September 30, 2012	December 31, 2011	September 30, 2011
		(Dollars in thousands)	
Past due 90 days or more and still accruing	$ 731	$ 798	$ 1,413
Nonaccrual	22,101	21,187	24,088
Other acquired loans covered by escrow			4,951
Restructured	17,784	1,041	1,059
Total nonperforming and restructured loans	40,616	23,026	31,511
Other real estate owned and repossessed assets	9,796	16,640	16,723
Total nonperforming and restructured assets	$ 50,412	$ 39,666	$ 48,234
Nonperforming and restructured loans to total loans	1.30%	0.76%	1.06%
Nonperforming and restructured assets to total assets	0.86%	0.71%	0.88%

The other acquired loans covered by escrow listed above were a part of the loan portfolio of 1st Bank Oklahoma that were acquired in the third quarter of 2011 and were covered by an escrow agreement whereby a portion of the purchase price was set aside to reimburse the Company for potential future losses. These loans were recorded at fair value at the acquisition date and were classified as nonperforming loans at September 30, 2011. As of December 31, 2011, these loans were reclassified to performing status. The loan escrow was terminated effective June 30, 2012 pursuant to a negotiated settlement.

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.

	September 30, 2012 (Dollars in thousands)
Non-residential real estate	$ 9,324
Residential real estate	4,179
Non-consumer non-real estate	2,527
Consumer non-real estate	138
Other loans	2,221
Acquired loans	3,712
Total	$ 22,101

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

	Age Analysis of Past Due Receivables					
	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 September 30, 2012						
Non-residential real estate	$ 1,561	$ 2,425	$ 3,986	$ 1,145,584	$ 1,149,570	$ 349
Residential real estate	3,693	1,170	4,863	732,935	737,798	98
Non-consumer non-real estate	4,233	135	4,368	729,538	733,906	7
Consumer non-real estate	2,050	230	2,280	205,463	207,743	170
Other loans	1,706	1,447	3,153	147,329	150,482	43
Acquired loans	1,219	1,061	2,280	134,317	136,597	64
Total	$ 14,462	$ 6,468	$ 20,930	$ 3,095,166	$ 3,116,096	$ 731
As of September 30, 2011						
Non-residential real estate	$ 2,269	$ 542	$ 2,811	$ 1,026,738	$ 1,029,549	$ 1
Residential real estate	4,462	1,723	6,185	689,731	695,916	225
Non-consumer non-real estate	2,077	374	2,451	690,059	692,510	149
Consumer non-real estate	2,594	354	2,948	198,684	201,632	310
Other loans	2,749	3,492	6,241	152,302	158,543	108
Acquired loans	1,108	1,913	3,021	202,943	205,964	620
Total	$ 15,259	$ 8,398	$ 23,657	$ 2,960,457	$ 2,984,114	$ 1,413

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect the full amount of scheduled principal and interest payments in accordance with the original contractual terms of the loan agreement. If a loan is impaired, a specific valuation allowance may be allocated if necessary so that the loan is reported net at the present value of future cash flows using the loan s existing rate or the fair value of collateral if repayment is expected solely from the collateral. When it is not deemed necessary to allocate a specific valuation allowance to an impaired loan, the loan nevertheless will have an allowance based on a historically adequate percentage determined for the class of loans.

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 September 30, 2012				
Non-residential real estate	$ 27,593	$ 26,434	$ 1,813	$ 26,733
Residential real estate	5,664	5,136	1,374	5,333
Non-consumer non-real estate	3,144	2,539	677	1,745
Consumer non-real estate	447	424	77	364
Other loans	2,420	2,265	264	1,975
Acquired loans	12,872	10,684	71	11,451
Total	$ 52,140	$ 47,482	$ 4,276	$ 47,601
As of September 30, 2011				
Non-residential real estate	$ 9,285	$ 8 ,671	$ 978	$ 9,835
Residential real estate	6,520	5,871	1,520	6,351
Non-consumer non-real estate	1,584	1,286	358	1,676
Consumer non-real estate	215	180	47	204
Other loans	3,888	3,794	342	4,296
Acquired loans	5,609	4,286	100	2,229
Total	$ 27,101	$ 24,088	$ 3,345	$ 24,591

Credit Risk Monitoring and Loan Grading

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

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

The general characteristics of the risk grades are as follows:

Grade 1 Acceptable Loans graded 1 represent reasonable and satisfactory credit risk which requires normal attention and supervision. Capacity to repay through primary and/or secondary sources is not questioned.

Grade 2 Acceptable Increased Attention This category consists of loans that have credit characteristics deserving management s close attention. These potential weaknesses could result in deterioration of the repayment prospects for the loan or the Bank s credit position at some future date. Such credit characteristics include loans to highly leveraged borrowers in cyclical industries, adverse financial trends which could potentially weaken repayment capacity, loans that have fundamental structure deficiencies, loans lacking secondary sources of repayment where prudent, and loans with deficiencies in essential documentation, including financial information.

Grade 3 Loans with Problem Potential This category consists of performing loans which are considered to exhibit problem potential. Loans in this category would generally include, but not be limited to, borrowers with a weakened financial condition or poor performance history, past dues, loans restructured to reduce payments to an amount that is below market standards and/or loans with severe documentation problems. In general, these loans have no identifiable loss potential in the near future, however; the possibility of a loss developing is heightened.

Grade 4 Problem Loans/Assets Nonperforming This category consists of nonperforming loans/assets which are considered to be problems. Nonperforming loans are described as being 90 days and over past due and still accruing, and loans that are nonaccrual. The government guaranteed portion of SBA loans is excluded.

Grade 5 Loss Potential This category consists of loans/assets which are considered to possess loss potential. While the loss may not occur in the current year, management expects that loans/assets in this category will ultimately result in a loss, unless substantial improvement occurs.

Grade 6 Charge Off This category consists of loans that are considered uncollectible and other assets with little or no value.

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 September 30, 2012						
Non-residential real estate	$ 984,606	$ 127,768	$ 27,523	$ 9,673	$	$ 1,149,570
Residential real estate	636,564	81,970	14,667	4,597		737,798
Non-consumer non-real estate	644,066	80,863	6,500	2,477		733,906
Consumer non-real estate	195,242	10,185	1,965	349	2	207,743
Other loans	146,037	2,726	887	832		150,482
Acquired loans	103,411	24,243	5,006	3,898	39	136,597
Total	$ 2,709,926	$ 327,755	$ 56,548	$ 21,826	$ 41	$ 3,116,096
As of September 30, 2011						
Non-residential real estate	$ 881,622	$ 107,228	$ 32,223	$ 8,476	$	$ 1,029,549
Residential real estate	602,621	72,095	14,805	6,395		695,916
Non-consumer non-real estate	620,123	63,375	7,881	1,131		692,510
Consumer non-real estate	189,895	8,950	2,380	407		201,632
Other loans	151,336	2,608	1,874	2,725		158,543
Acquired loans	151,103	35,609	8,264	10,891	97	205,964
Total	$ 2,596,700	$ 289,865	$ 67,427	$ 30,025	$ 97	$ 2,984,114

Allowance for Loan Losses Methodology

The allowance for loan losses (ALLL) is determined by a calculation based on segmenting the loans into the following categories: (1) adversely graded loans [Grades 3, 4, and 5] that have a specific reserve allocation; (2) loans without a specific reserve segmented by loans secured by real estate other than 1-4 family residential property, loans secured by 1-4 family residential property, commercial, industrial, and agricultural loans not secured by real estate, consumer purpose loans not secured by real estate, and loans over 60 days past due that are not otherwise Grade 3, 4, or 5; (3) Grade 2 loans; (4) Grade 1 loans; and (5) loans held for sale which are excluded.

The ALLL is calculated as the sum of the following: (1) the total dollar amount of specific reserve allocations; (2) the dollar amount derived by multiplying each segment of adversely graded loans without a specific reserve allocation times its respective reserve factor; (3) the dollar amount derived by multiplying Grade 2 loans and Grade 1 loans (less exclusions) times the respective reserve factor; and (4) other adjustments as deemed appropriate and documented by the Senior Loan Committee or Board of Directors.

The amount of the ALLL is an estimate based upon factors which are subject to rapid change due to changing economic conditions and the economic prospects of borrowers. It is reasonably possible that a material change could occur in the estimated ALLL in the near term.

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

	ALLL						
	Non-Residential Real Estate	Residential Real Estate	Non-Consumer Non-Real Estate	Consumer Non-Real Estate	Other Loans	Acquired Loans	Total
	(Dollars in thousands)						
Three Months Ended September 30, 2012							
Allowance for credit losses:							
Balance at June 30, 2012	$ 14,349	$ 10,006	$ 8,558	$ 2,282	$ 1,854	$ 387	$ 37,436
Charge-offs	(30)	(157)	(119)	(117)	(24)	(53)	(500)
Recoveries	17	9	19	42	2		89
Net charge-offs	(13)	(148)	(100)	(75)	(22)	(53)	(411)
Provisions charged to operations	(453)	(137)	712	162	6	(57)	233
Balance at September 30, 2012	$ 13,883	$ 9,721	$ 9,170	$ 2,369	$ 1,838	$ 277	$ 37,258
Nine Months Ended September 30, 2012							
Allowance for credit losses:							
Balance at December 31, 2011	$ 13,948	$ 9,764	$ 9,156	$ 2,315	$ 1,886	$ 587	$ 37,656
Charge-offs	(158)	(288)	(449)	(308)	(231)	(129)	(1,563)
Recoveries	48	118	144	157	33	11	511
Net charge-offs	(110)	(170)	(305)	(151)	(198)	(118)	(1,052)
Provisions charged to operations	45	127	319	205	150	(192)	654
Balance at September 30, 2012	$ 13,883	$ 9,721	$ 9,170	$ 2,369	$ 1,838	$ 277	$ 37,258
Allowance for credit losses-ending balances:							
Individually evaluated for impairment	$ 2,396	$ 2,305	$ 1,692	$ 315	$ 220	$	$ 6,928
Collectively evaluated for impairment	11,487	7,416	7,478	2,054	1,618	277	30,330
Balance at September 30, 2012	$ 13,883	$ 9,721	$ 9,170	$ 2,369	$ 1,838	$ 277	$ 37,258
Loans-ending balances:							
Individually evaluated for impairment	$ 37,195	$ 19,264	$ 8,976	$ 2,316	$ 264	$	$ 68,015
Collectively evaluated for impairment	1,112,375	718,534	724,930	205,427	150,218	127,654	3,039,138
Loans acquired with deteriorated credit quality						8,943	8,943
Balance at September 30, 2012	$ 1,149,570	$ 737,798	$ 733,906	$ 207,743	$ 150,482	$ 136,597	$ 3,116,096

	ALLL						
	Non-Residential Real Estate	Residential Real Estate	Non-Consumer Non-Real Estate	Consumer Non-Real Estate	Other Loans	Acquired Loans	Total
	(Dollars in thousands)						
Three Months Ended September 30, 2011							
Allowance for credit losses:							
Balance at June 30, 2011	$ 13,651	$ 9,380	$ 9,334	$ 2,237	$ 1,712	$ 778	$ 37,092
Charge-offs	(67)	(21)	(210)	(72)	(121)	(138)	(629)
Recoveries	7	20	46	24	2	9	108
Net charge-offs	(60)	(1)	(164)	(48)	(119)	(129)	(521)
Provisions charged to operations	290	472	(460)	136	156	291	885
Balance at September 30, 2011	$ 13,881	$ 9,851	$ 8,710	$ 2,325	$ 1,749	$ 940	$ 37,456
Nine Months Ended September 30, 2011							
Allowance for credit losses:							
Balance at December 31, 2010	$ 13,142	$ 8,957	$ 9,587	$ 2,301	$ 1,758	$	$ 35,745
Charge-offs	(336)	(522)	(394)	(400)	(243)	(469)	(2,364)
Recoveries	23	115	130	92	9	20	389
Net charge-offs	(313)	(407)	(264)	(308)	(234)	(449)	(1,975)
Provisions charged to operations	1,052	1,301	(613)	332	225	1,389	3,686
Balance at September 30, 2011	$ 13,881	$ 9,851	$ 8,710	$ 2,325	$ 1,749	$ 940	$ 37,456
Allowance for credit losses-ending balances:							
Individually evaluated for impairment	$ 3,351	$ 2,681	$ 1,528	$ 318	$ 232	$	$ 8,110
Collectively evaluated for impairment	10,530	7,170	7,182	2,007	1,517	940	29,346
Balance at September 30, 2011	$ 13,881	$ 9,851	$ 8,710	$ 2,325	$ 1,749	$ 940	$ 37,456
Loans-ending balances:							
Individually evaluated for impairment	$ 40,700	$ 21,200	$ 9,012	$ 2,787	$ 257	$	$ 73,956
Collectively evaluated for impairment	988,849	674,716	683,498	198,845	158,286	186,712	2,890,906
Loans acquired with deteriorated credit quality							