BANCFIRST CORP /OK/
Form 10-Q
November 08, 2011

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, 2011

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, 2011 there were 15,130,708 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, 2011 (unaudited)	December 31, 2010 (see Note 1)	September 30, 2010 (unaudited)
ASSETS			
Cash and due from banks	$ 146,904	$ 93,059	$ 106,498
Interest-bearing deposits with banks	1,463,388	1,111,020	918,725
Federal funds sold		41,207	5,000
Securities (market value: $607,626, $744,432, and $579,737, respectively)	607,046	743,803	578,837
Loans:			
Total loans (net of unearned interest)	2,984,114	2,811,964	2,756,118
Allowance for loan losses	(37,456)	(35,745)	(35,681)
Loans, net	2,946,658	2,776,219	2,720,437
Premises and equipment, net	110,001	97,796	92,005
Other real estate owned	16,222	22,956	21,252
Intangible assets, net	14,883	11,610	7,577
Goodwill	44,593	44,548	35,890
Accrued interest receivable	17,657	21,914	24,114
Other assets	104,954	96,117	88,847
Total assets	$ 5,472,306	$ 5,060,249	$ 4,599,182
LIABILITIES AND STOCKHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	$ 1,624,314	$ 1,318,431	$ 1,232,548
Interest-bearing	3,263,018	3,185,323	2,850,020
Total deposits	4,887,332	4,503,754	4,082,568
Short-term borrowings	12,279	7,250	2,700
Accrued interest payable	2,874	3,235	2,903
Long-term borrowings	28,049	34,265	
Other liabilities	31,293	24,285	30,338
Junior subordinated debentures	36,083	28,866	26,804
Total liabilities	4,997,910	4,601,655	4,145,313
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: 15,125,541, 15,368,717 and 15,358,672, respectively	15,126	15,369	15,359
Capital surplus	74,966	73,040	72,403
Retained earnings	374,140	361,680	355,340

Accumulated other comprehensive income, net of income tax of $5,484, $4,551 and $5,797, respectively	10,164	8,505	10,767
Total stockholders equity	474,396	458,594	453,869
Total liabilities and stockholders equity	$ 5,472,306	$ 5,060,249	$ 4,599,182

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, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
INTEREST INCOME				
Loans, including fees	$ 42,074	$ 38,900	$ 121,587	$ 114,976
Securities:				
Taxable	2,754	3,162	9,391	9,162
Tax-exempt	502	256	1,734	895
Federal funds sold		1	41	1
Interest-bearing deposits with banks	930	552	2,591	1,744
Total interest income	46,260	42,871	135,344	126,778
INTEREST EXPENSE				
Deposits	5,159	6,308	17,390	19,703
Short-term borrowings	26	1	33	2
Long-term borrowings	332		833	
Junior subordinated debentures	525	491	1,575	1,474
Total interest expense	6,042	6,800	19,831	21,179
Net interest income	40,218	36,071	115,513	105,599
Provision for loan losses	885	469	3,686	2,236
Net interest income after provision for loan losses	39,333	35,602	111,827	103,363
NONINTEREST INCOME				
Trust revenue	1,779	1,774	4,997	4,719
Service charges on deposits	11,386	10,036	31,587	29,000
Gains on sale of securities	39	156	819	139
Gains reclassified from other comprehensive income	11	177	555	180
Income from sales of loans	529	506	1,401	1,313
Insurance commissions	2,910	2,520	7,803	6,540
Cash management services	1,848	1,653	5,540	4,869
Gain on sale of other assets	3	4	7	381
Other	1,612	1,337	4,817	3,996
Total noninterest income	20,117	18,163	57,526	51,137
NONINTEREST EXPENSE				
Salaries and employee benefits	23,845	20,692	68,215	60,350
Occupancy and fixed assets expense, net	2,667	2,374	7,529	6,567
Depreciation	2,117	1,879	5,910	5,526
Amortization of intangible assets	458	267	1,211	777
Data processing services	1,302	1,022	3,720	3,200
Net expense from other real estate owned	965	125	834	376
Marketing and business promotion	1,550	1,402	4,741	4,087
Deposit insurance	786	1,310	2,976	4,373

Other	7,569	6,318	22,130	19,539
Total noninterest expense	41,259	35,389	117,266	104,795
Income before taxes	18,191	18,376	52,087	49,705
Income tax expense	5,638	6,589	18,064	17,573
Net income	12,553	11,787	34,023	32,132
NET INCOME PER COMMON SHARE				
Basic	$ 0.82	$ 0.77	$ 2.22	$ 2.09
Diluted	$ 0.81	$ 0.75	$ 2.18	$ 2.05
OTHER COMPREHENSIVE INCOME				
Unrealized gains (losses) on securities, net of tax of $(273), $67, $(1,232) and $21, respectively	430	(126)	2,214	(76)
Reclassification adjustment for gains included in net income, net of tax of $6, $96, $299 and $97, respectively	(11)	(177)	(555)	(180)
Other comprehensive income, net of tax of $(267), $163, $(933) and $118, respectively	419	(303)	1,659	(256)
Comprehensive income	$ 12,972	$ 11,484	$ 35,682	$ 31,876

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

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BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
COMMON STOCK				
Issued at beginning of period	$ 15,273	$ 15,347	$ 15,369	$ 15,309
Shares issued	16	28	37	66
Shares acquired and canceled	(163)	(16)	(280)	(16)
Issued at end of period	$ 15,126	$ 15,359	$ 15,126	$ 15,359
CAPITAL SURPLUS				
Balance at beginning of period	$ 74,229	$ 71,196	$ 73,040	$ 69,725
Common stock issued	248	606	722	1,354
Tax effect of stock options	118	220	187	340
Stock based compensation arrangements	371	381	1,017	984
Balance at end of period	$ 74,966	$ 72,403	$ 74,966	$ 72,403
RETAINED EARNINGS				
Balance at beginning of period	$ 371,150	$ 347,979	$ 361,680	$ 334,693
Net income	12,553	11,787	34,023	32,132
Dividends on common stock	(4,097)	(3,837)	(11,791)	(10,896)
Common stock acquired and canceled	(5,466)	(589)	(9,772)	(589)
Balance at end of period	$ 374,140	$ 355,340	$ 374,140	$ 355,340
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Unrealized gains on securities				
Balance at beginning of period	$ 9,745	$ 11,070	$ 8,505	$ 11,023
Other comprehensive income, net of tax	419	(303)	1,659	(256)
Balance at end of period	$ 10,164	$ 10,767	$ 10,164	$ 10,767
Total stockholders equity	$ 474,396	$ 453,869	$ 474,396	$ 453,869

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

BANCFIRST CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 34,023	$ 32,132
Adjustments to reconcile to net cash provided by operating activities:		
Provision for loan losses	3,686	2,236
Depreciation and amortization	7,121	6,303
Net amortization of securities premiums and discounts	3,339	1,793
Realized securities gains	(1,374)	(319)
Gain on sales of loans	(1,401)	(1,313)
Cash receipts from the sale of loans originated for sale	117,751	116,920
Cash disbursements for loans originated for sale	(117,667)	(190,203)
Deferred income tax (benefit) provision	(3,476)	206
Gains on other assets	(1,066)	(322)
Decrease (increase) in interest receivable	4,448	(3,427)
Amortization of stock based compensation arrangements	1,017	984
Other, net	6,205	6,090
Net cash provided (used) by operating activities	52,606	(28,920)
INVESTING ACTIVITIES		
Net cash and due from banks received from (used for) acquisitions	32,186	(1,000)
Purchases of securities:		
Held for investment	(6,400)	(345)
Available for sale	(166,140)	(221,449)
Maturities of securities:		
Held for investment	5,731	7,851
Available for sale	264,978	44,606
Proceeds from sales and calls of securities:		
Held for investment	2	154
Available for sale	79,770	4,591
Net decrease in federal funds sold	41,207	
Purchases of loans	(28,404)	(2,832)
Proceeds from sales of loans	9,298	30,908
Net other (increase) decrease in loans	(44,259)	9,759
Purchases of premises, equipment and other	(12,439)	(6,125)
Proceeds from the sale of other assets	14,125	5,104
Net cash provided by (used in) investing activities	189,655	(128,778)
FINANCING ACTIVITIES		
Net increase in demand, transaction and savings deposits	250,170	208,415
Net decrease in certificates of deposits and IRA s	(43,780)	(54,863)
Net (decrease) increase in short-term borrowings	(5,857)	2,600
Net decrease in long-term borrowings	(15,968)	
Issuance of common stock	946	1,760
Common stock acquired	(10,052)	(605)
Cash dividends paid	(11,507)	(10,896)

Net cash provided by financing activities	163,952	146,411
Net increase (decrease) in cash, due from banks and interest bearing deposits	406,213	(11,287)
Cash, due from banks and interest bearing deposits at the beginning of the period	1,204,079	1,036,510
Cash, due from banks and interest bearing deposits at the end of the period	$ 1,610,292	$ 1,025,223
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 20,192	$ 22,163
Cash paid during the period for income taxes	$ 21,802	$ 17,540

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

BANCFIRST CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) GENERAL

The accompanying consolidated financial statements include the accounts of BancFirst Corporation, Council Oak Partners, LLC, BancFirst Insurance Services, Inc., The Okemah National Bank, 1st Bank Oklahoma and BancFirst and its subsidiaries (the Company). The operating subsidiaries of BancFirst are Council Oak Investment Corporation, Council Oak Real Estate, Inc., BancFirst Agency, Inc., Lenders Collection Corporation 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 unaudited interim 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, 2010, the date of the most recent annual report.

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. Certain items in prior financial statements have been reclassified to conform to the current presentation.

(2) RECENT ACCOUNTING PRONOUNCEMENTS

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-20 Receivables (Topic 310) Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which expands the disclosure requirements concerning the credit quality of an entity s financing receivables and its allowance for loan losses. The new disclosures that relate to information as of the end of the reporting period were effective as of December 31, 2010, whereas the disclosures related to activity that occurred during the reporting periods were effective January 1, 2011. The adoption of this disclosure-only guidance did not have an effect on the Company s financial statements. See Note (5) for disclosure.

In December 2010, the FASB issued ASU 2010-28 Intangibles Goodwill and Other (Topic 350) When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. The amendments in this update affect all entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing Step 1 of the goodwill impairment test is zero or negative. For public entities, the amendments in this update were effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company does not have any reporting units with zero or negative carrying amounts, therefore the adoption of this update did not have an 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 applies 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.

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 will be effective for the Company on December 16, 2011, and applies prospectively. Adoption of ASU 2011-04 is not expected to 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 it applies retrospectively. The adoption of ASU 2011-05 did not have a significant effect on the Company s financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles Goodwill and Other (Topic 350). 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 adopted 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.

(3) RECENT TRANSACTIONS, INCLUDING MERGERS & ACQUISITIONS

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, Tulsa, 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. The bank will operate under its present name until it is merged into BancFirst, which is expected to be on February 17, 2012. The acquisition did not have a material effect on the Company s consolidated financial statements.

On December 15, 2010, the Company completed the acquisition of OK Bancorporation, Inc., and its subsidiary bank, The Okemah National Bank. At acquisition, The Okemah National Bank had approximately $73 million in total assets, $32 million in loans, $62 million in deposits, and $9 million in equity capital. The bank operated as The Okemah National Bank until it was merged into BancFirst on October 21, 2011. The acquisition did not have a material effect on the Company s consolidated financial statements.

On December 10, 2010, the Company completed the acquisition of Exchange Bancshares of Moore, Inc., and its subsidiary bank, Exchange National Bank of Moore. At acquisition, Exchange National Bank of Moore had approximately $147 million in total assets, $47 million in loans, $116 million in deposits, and $10 million in equity capital. Exchange National Bank of Moore operated as a subsidiary of BancFirst Corporation until it was merged into BancFirst on June 17, 2011. The acquisition did not have a material effect on the Company s consolidated financial statements.

On October 8, 2010, the Company completed the acquisition of Union National Bancshares, Inc., and its subsidiary bank, Union Bank of Chandler with offices in Chandler and Tulsa, Oklahoma. At acquisition, Union Bank of Chandler had approximately $134 million in total assets, $90 million in loans, $117 million in deposits, and $15 million in equity capital. Union Bank of Chandler operated as a subsidiary of BancFirst Corporation until it was merged into BancFirst on November 12, 2010. The acquisition did not have a material effect on the Company s consolidated financial statements.

The Company recorded a total of $13.3 million of goodwill and core deposit intangibles as a result of the three acquisitions completed in 2010. The combined acquisitions added approximately $354 million in total assets, $169 million in loans and $295 million in deposits. The effects of these acquisitions were included in the consolidated financial statements of the Company from the date of acquisition forward. The Company does not believe these acquisitions, individually or in aggregate were material to 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.

Effective June 30, 2010, the Company ceased participation in the Transaction Account Guarantee Program (TAGP) for extended coverage of noninterest-bearing transaction deposit accounts. Accordingly, the standard insurance amount was in effect for the Company s deposit accounts through December 31, 2010. In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provide for temporary unlimited coverage for noninterest-bearing transaction accounts. The separate coverage for noninterest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012.

On April 1, 2010, the Company s insurance agency BancFirst Insurance Services, Inc., also operating as Wilcox & McGrath, Inc., completed its acquisition of RBC Agency, Inc., which has offices in Shawnee and Stillwater. BancFirst Insurance Services, Inc. has offices in Oklahoma City, Tulsa, Lawton and Muskogee. The acquisition did not have a material effect on the Company s consolidated financial statements.

On March 21, 2010, Congress passed student loan reform legislation centralizing student lending in a governmental agency, which as of June 30, 2010 resulted in an end to the student loan programs provided by the Company. As of September 30, 2011, the Company had no student loans held for sale and had approximately $48.4 million of student loans held for investment.

(4) SECURITIES

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

	September 30, 2011 (Dollars in thousands)
Held for investment, at cost (market value: $23,257)	$ 22,677
Available for sale, at market value	584,369
Total	$ 607,046

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
		(Dollars in thousands)		
September 30, 2011				
U.S. treasury and other federal agencies	$ 1,046	$ 79	$	$ 1,125
States and political subdivisions	21,631	502	(1)	22,132
Total	$ 22,677	$ 581	$ (1)	$ 23,257

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
		(Dollars in thousands)		
September 30, 2011				
U.S. treasuries	$ 30,027	$ 10	$	$ 30,037
U.S. federal agencies (1)	437,594	7,822	(172)	445,244
Mortgage backed securities	31,798	628	(9)	32,417
States and political subdivisions	61,650	2,377	(27)	64,000
Other securities (2)	7,605	5,066		12,671
Total	$ 568,674	$ 15,903	$ (208)	$ 584,369

(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, 2011	
	Amortized Cost	Estimated Market Value
	(Dollars in thousands)	
Held for Investment		
Contractual maturity of debt securities:		
Within one year	$ 5,809	$ 5,907
After one year but within five years	13,871	14,191
After five years but within ten years	2,281	2,352
After ten years	716	807
Total	$ 22,677	$ 23,257
Available for Sale		
Contractual maturity of debt securities:		
Within one year	$ 195,364	$ 198,664
After one year but within five years	199,037	202,827
After five years but within ten years	76,955	78,140
After ten years	89,713	92,067
Total debt securities	561,069	571,698
Equity securities	7,605	12,671
Total	$ 568,674	$ 584,369

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, 2011 (Dollars in thousands)
Book value of pledged securities	$	474,653

(5) LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a schedule of loans outstanding by category:

	September 30, 2011		December 31, 2010		September 30, 2010	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in thousands)			
Commercial and industrial	$ 542,189	18.17%	$ 549,050	19.53%	$ 492,823	17.88%
Oil & gas production & equipment	109,272	3.66	94,535	3.36	81,816	2.97
Agriculture	73,021	2.45	87,879	3.13	74,494	2.70
State and political subdivisions:						
Taxable	7,079	0.24	9,627	0.34	8,794	0.32
Tax-exempt	12,192	0.41	10,301	0.37	10,322	0.38
Real estate:						
Construction	258,182	8.65	230,367	8.19	212,830	7.72
Farmland	97,041	3.25	93,137	3.31	89,048	3.23
One to four family residences	655,007	21.95	608,786	21.65	568,755	20.64
Multifamily residential properties	37,173	1.24	31,257	1.11	29,123	1.06
Commercial	908,207	30.43	797,564	28.36	754,066	27.36
Consumer	260,718	8.74	273,277	9.73	409,754	14.87
Other	24,033	0.81	26,184	0.92	24,293	0.87
Total loans	$ 2,984,114	100.00%	$ 2,811,964	100.00%	$ 2,756,118	100.00%
Loans held for sale (included above)	$ 13,066		$ 11,776		$ 159,660	

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.

As of September 30, 2011, the Company had no student loans held for sale and had approximately $48.4 million of student loans held for investment. Loans held for sale included $145.2 million of guaranteed student loans at September 30, 2010. Student loans are classified as consumer loans in the preceding table and valued at the lower of cost or market. On March 21, 2010, Congress passed student loan reform legislation centralizing student lending in a governmental agency, which as of June 30, 2010 resulted in an end to the student loan programs provided by the Company. During October 2010 the Company sold student loans held for sale of approximately $144 million.

Appraisal Policy

An updated appraisal of the collateral is obtained when a loan is first identified as a problem loan. Appraisals are reviewed annually and are updated as needed, or are updated more frequently if significant changes are believed to have occurred in the collateral or market conditions.

Nonaccrual Policy

The Company does not accrue interest on (1) any loan upon which a default of principal or interest has existed for a period of 90 days or over unless the collateral margin or guarantor support are such that full collection of principal and interest are not in doubt, and an orderly plan for collection is in process; and (2) any other loan for which it is expected full collection of principal and interest is not probable.

A nonaccrual loan may be restored to an accrual status when none of its principal and interest is past due and unpaid or otherwise becomes well secured and in the process of collection and when prospects for future contractual payments are no longer in doubt. With the exception of a formal debt forgiveness agreement, no loan which has had principal charged-off shall be restored to accrual status unless the charged-off principal has been recovered.

Nonperforming and Restructured Assets

Nonaccrual loans, accruing loans past due more than 90 days, 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 $860,000 for the nine months ended September 30, 2011.

The following is a summary of nonperforming and restructured assets:

	September 30, 2011	December 31, 2010 (Dollars in thousands)	September 30, 2010
Past due over 90 days and still accruing	$ 1,413	$ 1,096	$ 563
Nonaccrual	24,088	26,701	25,684
Other acquired loans covered by escrow	4,951		
Restructured	1,059	294	378
Total nonperforming and restructured loans	31,511	28,091	26,625
Other real estate owned and repossessed assets	16,723	23,179	21,499
Total nonperforming and restructured assets	$ 48,234	$ 51,270	$ 48,124
Nonperforming and restructured loans to total loans	1.06%	1.00%	0.97%
Nonperforming and restructured assets to total assets	0.88%	1.01%	1.05%

The other acquired loans covered by escrow listed above are a part of the loan portfolio of 1st Bank Oklahoma that were acquired in the third quarter of 2011 and are 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. The Company is still evaluating the loans and estimates that a substantial portion of the above amount may ultimately be reclassified to performing status.

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.

	As of September 30, 2011 (Dollars in thousands)
Non-residential real estate	$ 8,671
Residential real estate	5,871
Non-consumer non-real estate	1,286
Consumer non-real estate	180
Other loans	3,794
Acquired loans	4,286
Total	$ 24,088

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

	Age Analysis of Past Due Receivables As of September 30, 2011					
	30-89 Days Past Due	Greater than 90 Days	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
	(Dollars in thousands)					
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	